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AGRICULTURAL FINANCE Outlook



U.S. DEPARTMENT OF AGRICULTURE
ECONOMIC RESEARCH SERVICE

The authors of this report appreciate the information received from many specialists in agricultural finance who responded to the "1975 Agricultural Finance Outlook Survey" made in September. Their responses, from all parts of the United States, provide the basis for many of the outlook statements in this report. Those responding to the survey included officers and employees of commercial banks, agricultural loan officers of life insurance companies, economists of the Federal Reserve System, State Directors and other employees of the Farmers Home Administration, Presidents and other officers of Federal Land Banks and Federal Intermediate Credit Banks, and employees of the Economic Research Service and the Extension Service. Officers and employees of the American Bankers Association provided valuable help in collecting information from association members and officers.

AGRICULTURAL FINANCE OUTLOOK

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Net incomes of farmers improved during the latter part of 1975 and the higher levels of earnings are expected to continue into 1976. However, a number of uncertainties exist which will affect net incomes in 1976. These include the volume of farm products exported this year and next, crop production in the United States and abroad and the vigor of the domestic economic recovery. Realized net farm income in 1975 is now estimated at \$25 billion, 10 percent below last year but still large enough to allow for sizeable additions to capital goods and other investments.

Although net farm income prospects for 1975 are much improved over earlier forecasts, substantial variations in earnings across farm types were evident and will likely be only partly modified in 1976. As in 1974, crop producers did well again in 1975. Poor harvests in the USSR and other countries in Europe this year have resulted in further gains in grain exports which in turn helped to maintain crop prices in spite of a record domestic harvest. Livestock feeders and cow-calf operators did not fare as well as crop producers in 1975 because of high feed costs and lower product prices. However, during the year incomes of livestock feeders began to show some signs of recovery from the difficult period that began in 1973. The outlook for livestock feeders and for cow-calf operators is improving. Given the large cow and calf slaughter in 1975, the growth in total cattle numbers has probably stopped. This development provides some optimism that somewhat higher cattle prices in 1975 will continue into 1976. Also, lower expected feed costs will benefit the livestock feeders and cow-calf operators.

Balance sheet forecasts place the total value of assets in the farming sector on January 1, 1976 at \$594 billion. This would be an increase of about \$74 billion over January 1, 1975 and much greater than the \$44 billion increase in 1974. Proprietors' equities in 1975 are estimated to have increased by \$65 billion or more than double the net farm income expected during the year.

As in the case of net farm income, improvement in net worth varied markedly across farm types. The respondents to the recent Agricultural Finance Outlook Survey indicated some deterioration occurred from 1974 to 1975 in the net worth of

livestock feeders and other livestock producers. An improvement was noted for crop producers and general farmers. For cattle producers the continued decline in inventory values of cattle, and losses on operations, more than offset the appreciation in value of their real estate and other assets.

Increasing land values in 1975 accounted for the major share of the rise in the value of total assets. Land values are expected to have increased by 14 percent, similar to the 1974 rate of increase, with the largest increases occurring in predominantly crop producing regions. Rising land values reflect favorable farm income prospects and further inflation. Livestock inventory values are also expected to have increased slightly in 1975 and are expected to continue to increase in 1976. During 1974, the value of livestock inventories had dropped 40 percent from the record high at the start of the year.

On the liability side of the farming sector balance sheet, the rate of increase in total debt appears to have been slightly lower in 1975 than in 1974. Total nonreal estate and real estate debt outstanding at the end of 1975 is estimated at \$90.6 billion, an \$8.8 billion or 11 percent increase over the end of 1974. Real estate debt is expected to have increased by 12 percent and nonreal estate debt by 9 percent.

Revised nonreal estate debt estimates show that an important segment of farm debt has increased less in recent years than previously indicated. This debt, which is owed to merchants and dealers and several

other nonreporting sources, is estimated to have risen quite slowly again in 1975—a 5 percent gain compared with the 2 percent gain in 1974. Retailers still seem to be moving slowly in making credit easier for their customers to obtain. The rapid growth in loans held by institutional lenders partly reflected this slow growth in merchant and dealer short term credit.

The Farm Credit System continues to be a major supplier of both real estate and nonreal estate loans. Both Federal land banks in the farm mortgage loan markets and production credit associations in the nonreal estate farm loan markets continue to expand their share of loans outstanding held by all lenders. Some increase in loan activity by the Farmers Home Administration was also experienced in 1975 due to the emergency loans made as a result of the widespread crop losses of 1974. Little change in interest rates from the current advanced levels is expected during 1976. Nonreal estate and real estate farm loan rates in mid 1975 averaged around 8.5 to 10.0 percent.

Farm lending difficulties during 1975 were small. In general, farmers appeared to be handling their debt repayments satisfactorily. Renewals and delinquencies were, however, above normal levels for livestock producers. Nevertheless, relatively few of the livestock producers are using the Farmers Home Administration-guaranteed Emergency Livestock Loan Program.

BALANCE SHEET OF THE FARMING SECTOR, Jan. 1, 1976

The value of total farm assets rose by an estimated \$74.1 billion dollars during 1975, an increase of 14 percent for the year (table 1). The value of real estate at the beginning of 1976 is estimated at \$423 billion, 14 percent higher than the value one year earlier. In the six years since 1970 land values have more than doubled.

The value of nonreal estate assets as of January 1, 1976 is estimated at \$139.6 billion, over \$20 billion higher than one year earlier. The major increase is in machinery and motor vehicles which increased in value by \$13 billion, well over a 20 percent increase. Crop and livestock inventories as well as household equipment and furnishings also increased in value.

The value of financial assets held by farm operators is estimated at \$31.4 billion as of January 1, 1976, an increase of slightly more than 5 percent over January 1, 1975. The largest increase in financial assets resulted from increases in the value of investments in cooperatives.

Total debt outstanding in the farm sector is estimated to rise to \$90.6 billion by the end of 1975, about 11 percent higher than at the start of the year. Real estate debt outstanding is expected to show a net increase of \$5.6 billion during 1975. This is about

comparable to the increase in 1973, but is \$0.6 billion greater than the net increase in 1974. A decline in the rate of farm transfers appears to be a major reason underlying the lower percentage rate of growth in real estate debt in 1975 than in 1973. Nonreal estate debt is expected to increase by \$3.2 billion during 1975. This increase is similar to that in 1974 but is much smaller than the \$4.3 billion net increase in 1973.

Equity claims on farm assets are estimated to total \$503.7 billion at the start of 1976, compared with \$438.4 billion at the start of 1975. This represents a 14.9 percent increase in the net worth of farm operators. Debt outstanding as a percent of total assets is estimated at 15.2 as of January 1, 1976, compared with 15.7 a year earlier. Thus the debt-to-asset ratio has dropped to a 10-year low. Despite considerable variability among farm operators, there has been an improvement in the equity position of farmers in general in 1975.¹

¹The debt-to-asset ratio is only a general indicator of farmers' equity position. Many farm operators have substantially higher ratios while many others have no debt outstanding at the end of the year.

Table 1—Balance Sheet of the farming sector January 1, 1960-76

Item	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976 ^a
	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars
Physical assets:																	
Real estate assets	130.6	132.2	138.4	144.3	152.6	161.5	172.8	182.3	192.5	201.4	206.9	215.0	231.5	260.6	325.3	371.4	423.3
Nonreal estate assets	55.3	54.7	56.8	59.1	58.4	57.1	61.8	64.8	67.3	75.3	76.4	78.9	86.7	100.3	122.0	119.0	139.6
Total physical assets	185.9	186.9	195.2	203.4	211.0	218.6	234.6	247.1	259.8	276.7	283.3	293.9	318.2	360.9	447.3	490.4	562.9
Financial assets:																	
Commercial bank deposits and currency	9.2	8.7	8.8	9.2	9.2	9.6	10.0	10.3	10.9	11.5	11.9	12.4	13.2	14.0	14.9	15.0	15.3
Other financial assets	8.9	9.1	9.3	9.4	9.6	9.8	10.0	10.1	10.3	10.6	10.9	11.2	11.7	12.6	13.7	14.8	16.1
Total financial assets	18.1	17.8	18.1	18.6	18.8	19.4	20.0	20.4	21.2	22.1	22.8	23.6	24.9	26.6	28.6	29.8	31.4
Total farm assets	204.0	204.7	213.3	222.0	229.8	238.0	254.6	267.5	281.0	298.8	306.1	317.5	343.1	387.5	475.9	520.2	594.3
Debt claims:																	
Real estate debt	12.0	12.8	13.8	15.1	16.8	18.9	21.2	23.1	25.1	27.4	29.2	30.3	32.2	35.8	41.3	46.3	51.9
Nonreal estate debt	11.6	12.0	12.8	14.2	15.7	16.3	18.0	19.8	20.9	20.3	21.1	22.2	24.7	27.8	32.1	35.2	38.4
CCC nonrecourse loans	1.2	1.4	1.9	2.1	1.9	1.6	1.4	1.2	1.4	2.7	2.7	1.9	2.3-	1.8	.7	.3	.3
Total debt claims on farm assets	24.8	26.2	28.5	31.4	34.4	36.8	40.6	44.1	47.4	50.4	53.0	54.4	59.2	65.4	74.1	81.8	90.6
Equity:	179.2	178.6	184.8	190.6	195.4	201.2	213.9	223.4	233.6	244.8	253.1	263.0	283.9	322.1	401.8	438.4	503.7
Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
Debt to asset ratio	12.2	12.8	13.4	14.1	15.0	15.5	16.0	16.5	16.9	17.1	17.3	17.2	17.2	16.9	15.6	15.7	15.2
Debt to equity ratio	13.8	14.7	15.4	16.5	17.6	18.3	19.0	19.7	20.3	20.6	20.9	20.7	20.9	20.3	18.4	18.7	18.0

^aPreliminary estimate. ^bIncludes machinery and motor vehicles household furnishings and equipment and inventories of crops (including crops held as security for CCC loans) and livestock. ^cIncludes U.S. savings bonds and investments in farmer cooperatives. Does not include financial claims on specific nonfarm assets such as holding of common stocks as data on these claims are not available.

Debt Repayment Capacity

Net cash income from farm and off-farm sources as a percent of debt outstanding can be used as a general indicator of the ability of farm operators to repay their debts from current earnings.² This percentage at the end of 1975 is estimated at 71.4 compared with 79.7 in 1974 and 86.6 in 1973. Thus farm operators are in a somewhat weaker position to repay debts from current income going into 1976 than the previous two years. Nevertheless, their capacity to retire debt from current earnings as measured by this ratio is greater than any year in the period of 1967 through 1972.

FARM REAL ESTATE VALUES

The market value of farm real estate on March 1, 1975, was \$371.4 billion, up \$46.1 billion (14 percent) from March 1, 1974. Average value per acre of farmland at the beginning of 1975 was \$354 compared with \$310 in 1974.

Increases in the value of farmland were not uniform regionally (fig. 1). Crop farming areas showed larger gains than predominantly livestock areas. For example, land prices in North Dakota and

Minnesota were up 37 and 30 percent, respectively, while Nevada, Arizona, and Texas showed virtually no change. In general, value changes of recent years have reflected the changes in farm income levels and expectations for earnings in the future, as well as the general inflationary trends in the economy (figure 2). The rise in farm real estate values over the general price level since 1972 probably reflects the improved farm income levels in those years and optimism over longer run prospects.

Most of the increase in land values between March 1974 and March 1975 took place between March and October 1974. Demand for farmland dropped after October; between October 1974 and March 1975, there were 19 percent fewer transfers and an average of 15 percent fewer acres per tract transferred than in the October-March period a year earlier, when transfer rates were unusually high. Between October 1974 and March 1975, farmland prices actually dropped in Arizona, Texas, Louisiana, and Arkansas.

Since March 1975, farmland values appear to have resumed a more rapid advance. Farmland values in the United States are expected to increase 14 percent for the year ending March 1976 with most of the increase occurring towards the latter part of this year and early next year. Improved earnings on major crops and the improvement in the livestock outlook plus the general inflationary trend in the economy appear to be the main reasons for the increases.

²Caution must be taken in using this ratio since there is not an exact relationship between levels of income and debt outstanding. Considerable variation exists among different farm operators.

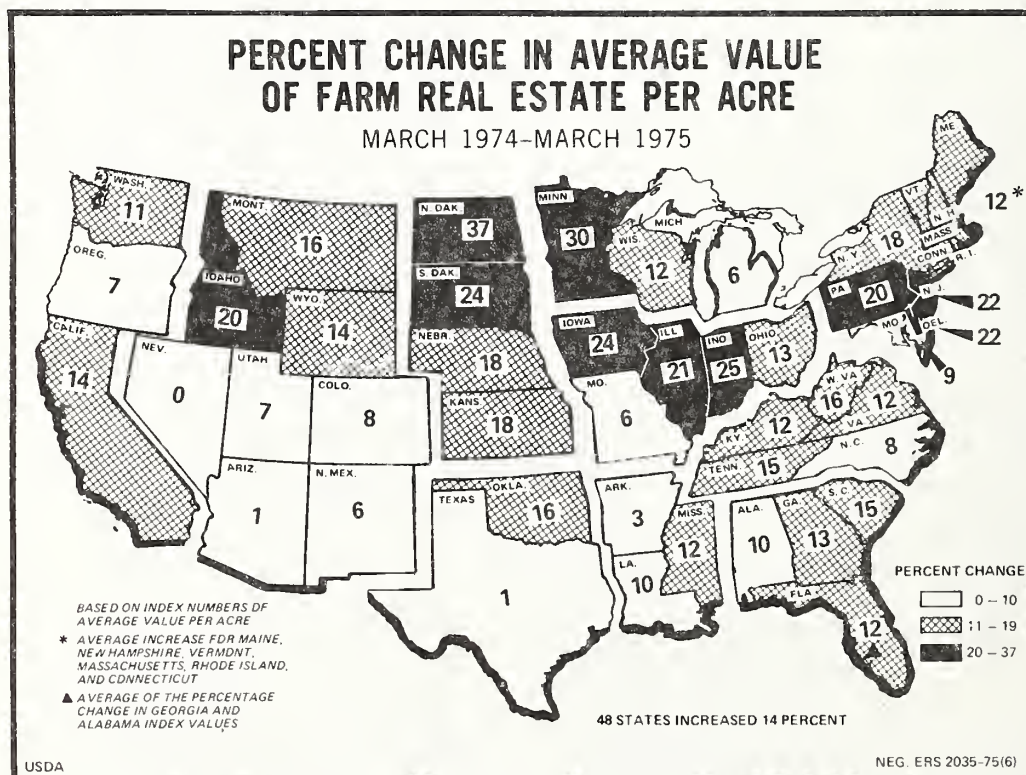


Figure 1

FARM REAL ESTATE VALUES AND THE GENERAL PRICE LEVEL

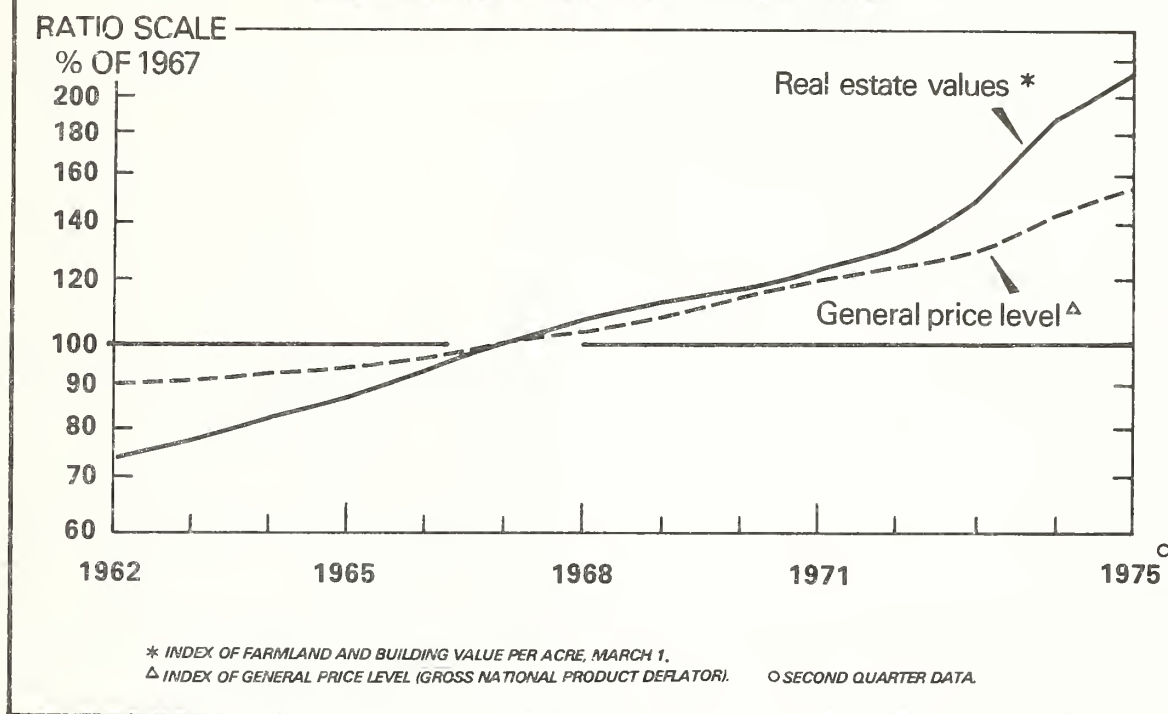


Figure 2

Results from the 1975 Agricultural Finance Outlook Survey indicate that the Cornbelt region will likely show the greatest increase in land values followed by the Lake States region. The Mountain and Southeast regions will likely post the smallest increase. However, compared to last year, the number of farms sold in the U.S. this year is expected to be down. Of the 236 questionnaires received from the Agricultural Finance Outlook Survey, 36 percent of the responses indicated the number of farms sold had declined, 47 percent indicated that the number had remained the same and only 10 percent believed the number sold had increased.

Lenders Views on Farm Loan Risks

Respondents to the finance survey were asked whether the risk associated with farm lending in 1975 had changed as compared with previous years. Of the 180 who responded 110 believed that the risk of making farm loans had increased, 61 believed that it had not changed, while only 9 believed that the risk of making farm loans had decreased.

How lenders view the riskiness of farm loans has an influence on the farm lending policies they adopt. If lenders view farm loans as more risky, their response will likely be at least one of the following: to

reduce the amount of funds extended, to increase interest rates, to increase security requirements, to decrease the term of the loan or to increase the supervision of the loan.

Price variability of most agricultural products has increased during recent years. In part, the increased variability of farm product prices can be associated with the reduction of stocks and grain prices which are higher than government price support levels. The lack of effective price supports has the effect of shifting the price risk once absorbed by the government back to farmers. Given this shifting of risk, producers may rely more heavily on nongovernmental agencies and private measures to reduce their risk. Some alternatives that might come into greater use in the future are hedging, forward contracting or vertical integration. In addition, marketing news and outlook information will become more important as timing of marketing decisions become more crucial.

TOTAL FARM DEBT

Total farm debt outstanding on January 1, 1976 is expected to reach \$90.6 billion, an 11 percent increase

over the \$81.8 billion farm debt outstanding at the beginning of 1975. Real estate debt outstanding on January 1, 1976 is predicted to increase by 12 percent, from \$46.3 to \$51.9 billion, while nonreal estate debt (excluding Commodity Credit Corporation loans) is expected to increase 9 percent, from \$35.2 billion to \$38.4 billion, over a year earlier. CCC loans outstanding may remain at \$.3 billion.

FARM REAL ESTATE DEBT

Farm real estate debt is expected to have increased by \$5.6 billion during 1975 (table 2 and fig. 3). Of this \$5.6 billion increase, Federal land banks are expected to account for roughly 50 percent or \$2.8 billion while individuals and others are expected to account for 29 percent or \$1.6 billion of the increase. Real estate loans made by commercial banks, Farmers Home Administration (FmHA) and life insurance companies are expected to supply the remaining 21 percent or \$1.2 billion of the total increase in the real estate debt.

By January 1, 1976, nonreporting lenders are expected to hold 37 percent of the real estate debt outstanding. This is the largest share of real estate debt held by any one group of lenders. Federal land banks are expected to hold the second largest share of outstanding debt, equal to 31 percent of the total debt. Life insurance companies, which in the past have held a larger relative share of the real estate debt outstanding, are expected to hold 13 percent of the total. Relative shares of outstanding farm mortgage debt held by banks and FmHA are expected to equal 12 and 7 percent respectively.

An interesting historical trend in market shares of real estate lenders is continuing in 1975. As illustrated by figure 4, the percent of loans outstanding held by banks, FmHA and nonreporting lenders has been stable over the period from 1960 to

1975. Bank's share of real estate debt outstanding varied between 12 and 13 percent; FmHA's share varied between 6 and 8 percent; and nonreporting lenders share varied between 37 and 40 percent. However, life insurance companies and Federal land banks varied their shares of the real estate debt outstanding between 23 and 14 percent for life insurance companies and between 20 and 29 percent for Federal land banks. Since 1960, the combined share of real estate debt outstanding held by the Federal land banks and life insurance companies has varied between 41 and 44 percent. Historically, at least, when the percent of outstanding real estate loans held by life insurance companies declined, for whatever reason, the percent of outstanding loans held by Federal land banks increased, keeping the combined market share held by these two lenders nearly constant. This year appears to be no exception, with their combined share of outstanding loans expected to equal 44 percent.

This year will likely show the major institutional lenders increased the percent of farm mortgage loans committed for refinancing and decreased the percent of new loans committed for purchases of real estate. Refinancing is a means frequently used by borrowers to obtain additional loan funds. Comparing the year ending June 30, 1974 with the year ending June 30, 1975, life insurance companies increased their percent of loans for refinancing from 42.2 percent to 57.3 percent. Federal land banks showed a similar increase in refinancing for the same period, increasing from 38.3 percent to 47.4 percent. During the same period, Federal land banks increased the percent of their new loans for refinancing short-term debts from 7.3 to 12.5 percent. Loans by life insurance companies for purchases of real estate meanwhile declined from 33.6 percent to 27 percent from 1974 to 1975 while Federal land banks decreased the percent of their loans for the purchase of real estate from 41.4

Table 2—Real estate farm debt held by major institutional lenders and by individual and other creditors, Jan. 1, 1974-76

Lenders	Debt outstanding Jan. 1			Percent increase	
	1974	1975	1976 ^a	1974-75	1975-76 ^a
	Million dollars	Million dollars	Million dollars	Percent	Percent
Federal land banks	10,901	13,403	16,180	23	21
Life insurance companies	5,965	6,317	6,890	6	9
All operating banks	5,458	5,966	6,300	9	6
Farmers Home Administration ^b	3,013	3,212	3,530	7	10
Total institutional lenders	25,337	28,898	32,900	14	14
Individuals and Others ^c	15,915	17,408	19,000	9	9
Total	41,253	46,306	51,900	12	12

^aPreliminary. ^bIncludes direct and insured farm ownership, farm housing, soil and water related loans secured by farm real estate. ^cIncludes seller and other individual financing of farm

real estate sales, and other unclassified credit sources providing loans secured by farm real estate.

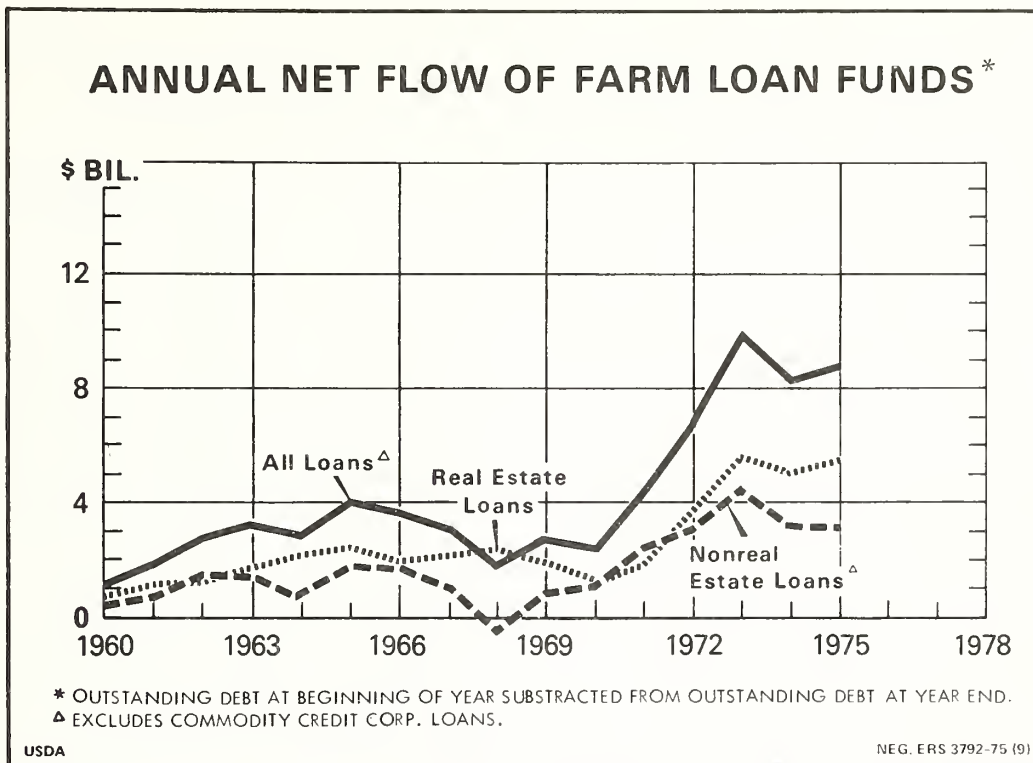


Figure 3

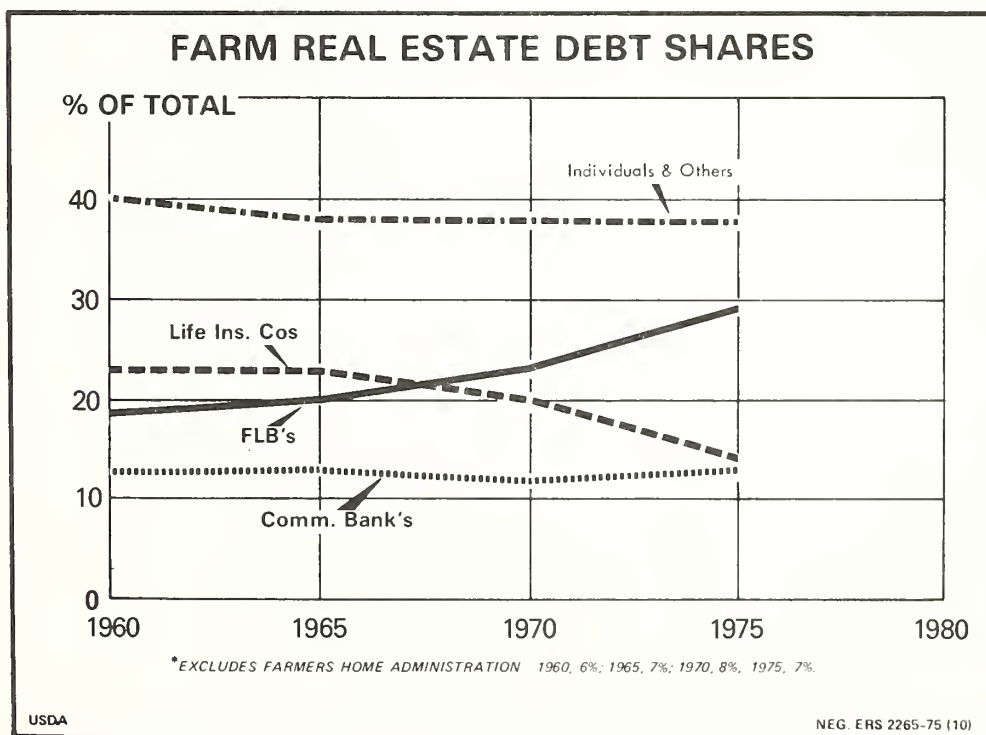


Figure 4

to 31.6 percent. In spite of the increase in loan funds used for refinancing short-term debt in 1975 compared with the low level of refinancing in 1974, the quality of real estate loans outstanding remains high, with only a slight increase in delinquencies.

In general, the 12 percent increase in real estate debt outstanding forecast at the end of 1975 is a result of the increase expected in land values. With the number of real estate transfers expected to be only slightly lower this year than last, the increase in real estate debt is needed to finance more expensive land transfers and to increase the size of loans to present borrowers who desired to refinance their existing loans in line with the increased value of their real estate.

NONREAL ESTATE FARM DEBT

Nonreal estate farm debt in 1975 is increasing at about the same rate as last year and more slowly than in 1973. Debt owed to institutional lenders will be an estimated 10 percent larger at the end of 1975 than at the beginning; in 1974 the gain was 11 percent (table 3). Debt owed to noninstitutional lenders like merchants and dealers and other similar sources probably continued to rise slowly in 1975 so that total nonreal estate debt will be up about 9 percent.

The continued moderate growth rate of nonreal estate debt appeared to reflect less optimism among farmers and lenders, particularly in the cattle producing areas. Also, many farm operators have made large purchases of machinery and some other farm inputs, and their demands for further purchases have not been as strong as earlier. However, the improvement in cattle prices in the last several months and the expectations of larger grain exports have improved farm income prospects, and lending activity probably strengthened in late 1975.

There was a considerable variation in the rate of growth in debt held by nonreal estate lenders in 1975. Loans of banks, the largest lender probably increased about 5 percent; in contrast, loans of production credit associations (PCA's) rose about 15 percent. Banks were reported to have experienced a slower growth in their funds available for farm lending, and may have reduced their lending to cattle producers considerably. Loans of the FmHA, a relatively small lender, rose by about 60 percent.

Over the years PCA's have handled an increasingly larger share of the total nonreal estate loan market, particularly after 1964 when the proportion of loans held by individuals and others began to decline rapidly (fig. 5). PCA's held 12 percent of the total on Jan. 1, 1960 and 27 percent on Jan. 1, 1975. Bank holdings have increased less rapidly than those of PCA's, rising from 42 percent on Jan. 1, 1960 to 52 percent on Jan. 1, 1975.

The estimated 60 percent increase in outstanding FmHA nonreal estate loans during 1975 reflecting a great expansion in their emergency loans. These emergency loans outstanding on June 30, 1975 were about one-half billion dollars larger than on January 1, 1975, a significant portion of the nearly \$3 billion increase in total nonreal estate debt owed to institutional lenders in the six month period. These emergency loans carried a favorable interest rate of 5 percent. They were available to farmers in counties where property damage or severe production losses occurred because of a disaster, and the area has been designated as eligible for such assistance. The large emergency loan program reflected the adverse weather conditions in many counties of the Nation in 1974 (fig. 6). The states where these FmHA emergency loans were greatest included Texas, Mississippi, and Wisconsin.

Table 3—Nonreal estate farm debt held by major institutional lenders, and by individual and other creditors, Jan. 1, 1974-76

Lenders	Debt Outstanding Jan. 1			Percent change	
	1974	1975	1976 ^a	1974-75	1975-76 ^a
	Million dollars	Million dollars	Million dollars	Percent	Percent
All operating banks	17,167	18,238	19,080	6	5
Production credit associations	7,829	9,519	10,910	22	15
Federal intermediate credit banks ^b	331	374	355	13	-5
Farmers Home Administration	877	1,044	1,700	19	63
Total, institutional lenders	26,204	29,176	32,045	11	10
Individuals and others ^c	5,930	6,050	6,350	2	5
Total	32,134	35,226	38,395	10	9

^aPreliminary. Excludes Commodity Credit Corporation price support and storage facility loans. On Jan. 1, 1976 these were an estimated \$0.3 billion. ^bLoans to and discounts for other financial institutions, including livestock loan companies and

agricultural credit corporations. ^cIncludes merchants and dealers, individuals, some lending institutions with small volumes of farm loans and all other unclassified credit sources.

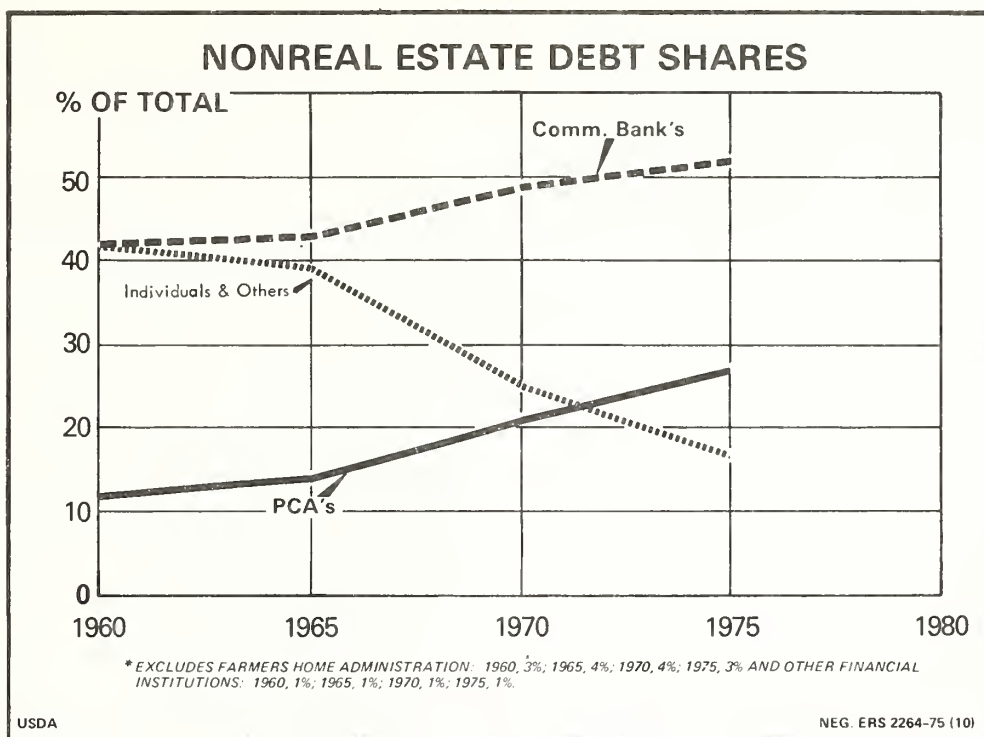


Figure 5

Farmers Home Administration Emergency Loan Program in 1974-75*

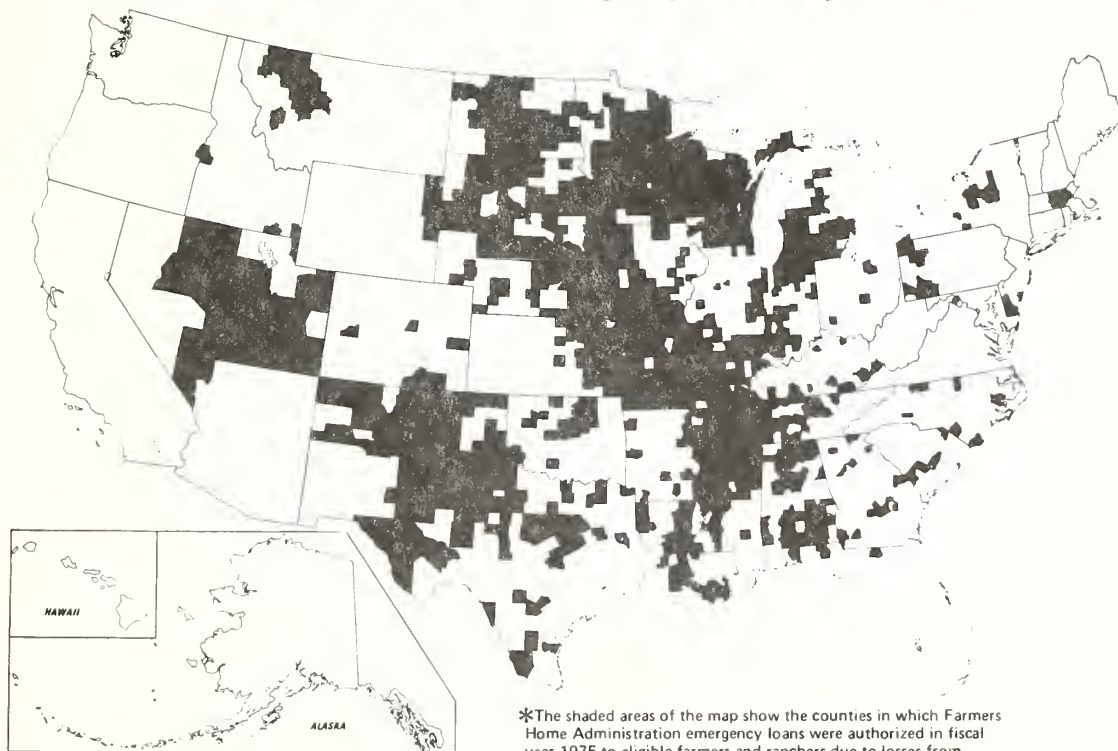


Figure 6

FmHA Emergency Livestock Loan Program

In 1975 the emergency livestock loan program, which began in 1974 and was due to expire June 30, 1975, was modified and extended through Dec. 31, 1976. This program is designed to assist financially distressed livestock producers in obtaining loans from commercial lenders. The Farmers Home Administration guarantees 90 percent of the principle and interest on loans to eligible producers up to an approved line of credit not to exceed \$350,000. Loans are to be repaid within a maximum of 7 years, with a 3 year renewal possible. Total funds allocated for guarantee were \$1.5 billion.

The program has not come into widespread use. On September 30, 1975, 3,299 loans had been obligated for \$382.2 million—about one-fourth of the total available for the program. Nearly two-thirds of the loans have been to livestock producers (primarily beef) in the Plains States of Texas, Oklahoma, Kansas, Nebraska, North and South Dakota. Loans in Oklahoma and Texas accounted for nearly 40 percent of the total.

Lender acceptance of the program has been varied, and considerable differences exist between counties within similar livestock farming areas, as illustrated for Texas (figure 7). The number of loans vary greatly between counties in the State, apparently depending on the extent to which lenders have desired to participate in the program. Refinancing of existing debt has been the primary use for which guarantee

funds have been utilized. As of mid-year 1975, 70 percent of all loans were for refinancing purposes, 16 percent for operating expense, 12 percent for livestock purchases and 2 percent for other uses.

Debts owed to Individuals and Others (I&O) rose an estimated 5 percent during 1975, a slightly larger increase than in 1974. This component of nonreal estate debt has become a progressively smaller part of the nonreal estate debt total as indicated in a recently completed revision³. Loans of PCA's particularly and to some extent of commercial banks have expanded in an offsetting way. Also, it appears that other changes in farm credit sources may be occurring. For example, some agri-business firms participate in phases of farm production by providing supplies to their cooperating farmers. These suppliers in effect provide credit to their cooperators thus reducing the need of the farm operators for direct credit. While perhaps the supplier requires and obtains credit from some source, such credits have not been identified as farm loans and are not included in USDA farm loan figures.

The larger percentage rise this year than last—5 percent compared with 2 percent—may indicate that some turn around in credit volume from these sources is beginning. Some of the elements that in earlier

³Evans, Carson D., Richard W. Simunek, and Philip T. Allen, *The Balance Sheet of the Farming Sector*, 1975, U.S. Department of Agriculture Inf. Bul. 399, September 1975, Page 18.

Number of Guaranteed Emergency Livestock Loans as of September 30, 1975
TEXAS

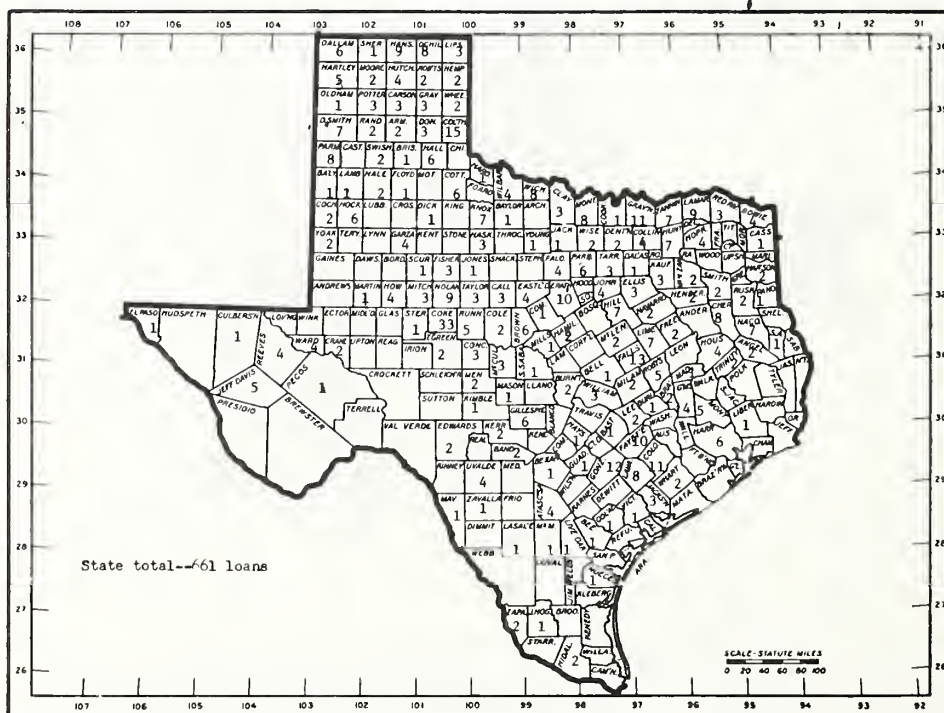


Figure 7

years made these credit sources more important are starting to reappear, including increased competition among retailers as supplies of inputs continue to expand, and less willingness of farmers to make purchases. At the same time, farmers are generally much more able than in former years to qualify for loans from regular lending institutions, and it is often to their advantage to do so, since credit charges are usually higher on merchant and dealer loans than on loans from banks or PCA's.

Evidence of some upturn was shown in one source of merchant and dealer credit on which data were obtained, that for farm machinery and equipment. Loan funds provided to their customers by retail farm machinery dealers from their credit subsidiaries are estimated to have increased fairly substantially in 1975, by about 20 percent as shown in table 4. Loans outstanding are expected to be 15 percent higher at the end of 1975 than at the beginning. The farm machinery company credit subsidiaries obtain their loan funds from the central money market. These funds, and funds from other sources, are used by retail farm machinery dealers to finance their customers who do not purchase for cash or who do not obtain loans from other sources. In 1973 and 1974 the trend in this credit volume had been downward.

Interest rates

Interest rates on nonreal estate farm loans declined in early 1975 as rates in the central money markets

Table 4—Loan funds supplied by six large full-time farm machinery manufacturers for retail purchases of farm machinery and equipment^a

	Loans outstanding end of year	
	Million dollars	Percent (1970=100)
1970	1,170	100
1971	1,179	101
1972	1,499	128
1973	1,183	101
1974 ^b	1,160	99
1975 ^c	1,346	115
	Loans made during year	
	Million dollars	Percent (1970=100)
1970	928	100
1971	936	101
1972	1,329	143
1973	1,065	115
1974 ^b	876	94
1975 ^c	1,052	113

^aExcludes loans estimated to have been made for nonfarm purposes. Years shown are company fiscal years: October 31 for 4 companies, December 31 for 2 companies. Data, including estimates for 1975, were provided by the six companies.
^bRevised. ^cEstimated.

declined. Declines were larger for PCA's which previously had increased their rates more than most other lenders (fig. 8). Rates since mid-1975 appear to have leveled off.

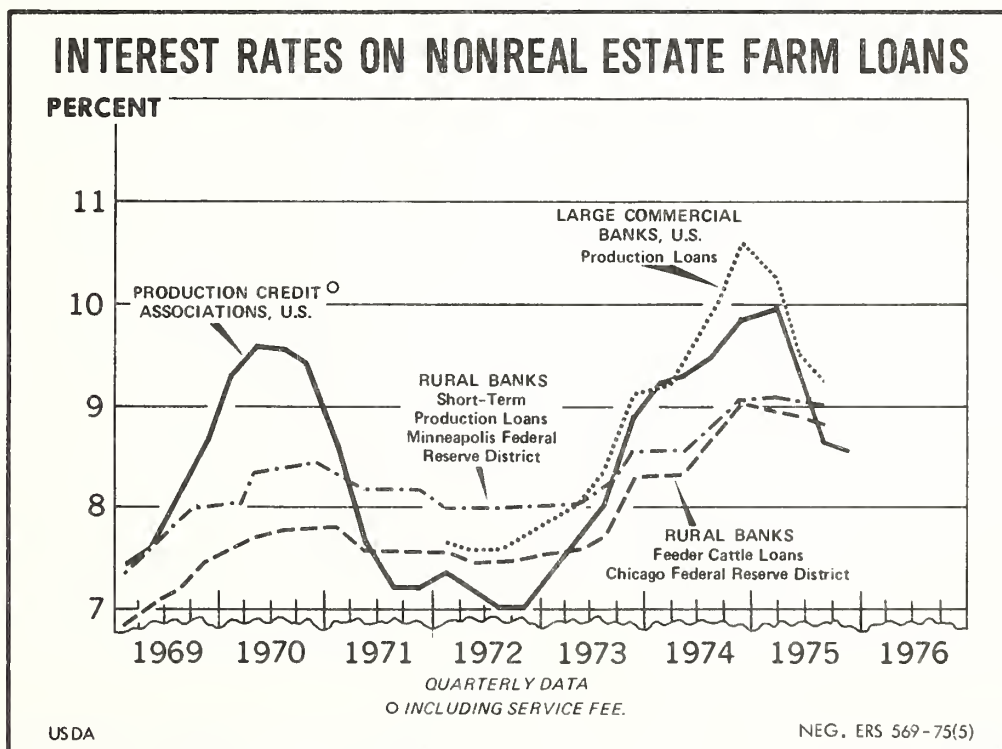


Figure 8

Rates on farm real estate loans have changed little in 1975 with life insurance companies charging about 10 percent and the Federal land banks from 8.50-9.00 percent (fig. 9).

CASH SOURCES OF FUNDS IN 1975 IN THE FARM SECTOR

Total cash sources of funds in 1975 were estimated at \$72.9 billion (table 5). Cash sources of funds include net cash farm and off-farm income as well as the net flow of real estate and nonreal estate loan funds. Income from the sale of farmland to the nonfarm sector by operators who remain in farming is not included due to lack of data. However, this item is believed to be relatively small when compared with the total supply of funds.

Income from Farm and Off-Farm Sources

Estimated cash income from farm and off-farm sources in 1975 declined slightly from 1974. Increases in off-farm income were a little more than offset by a decline in net cash farm income. The ratio of net cash income from farm and off-farm sources to total cash uses of funds measures the degree to which cash uses of funds by farm operators and their families are financed with internally generated funds. In 1975 this ratio was 87.9 percent, one percentage point lower than 1974 (fig. 10). Despite some inter-year fluctuations, a downward trend in the cash uses of funds financed by internal sources of funds is evident. This points out the increasing reliance on borrowed funds to finance farm sector activity.

Farm Borrowings

The net flow of real estate loan funds was estimated at \$5.6 billion in 1975, up just slightly from the 1974 level. The ratio of the net flow of real estate loan funds to total cash uses of funds was 7.7 percent. This level was exceeded only once in the prior 15 years. The net flow of nonreal estate loans, excluding Commodity Credit Corporation nonrecourse loans, was estimated at \$3.2 billion. This is a slight increase from 1974. However, it is more than \$1 billion less than the net increase in 1973. The ratio of the net flow of nonreal estate loan funds to total cash uses of funds was 4.4 percent in 1975.

CASH USES OF FUNDS IN 1975 IN THE FARM SECTOR

Estimated total cash uses of funds in the farm sector in 1975 was \$72.9 billion (table 5). This represents a decrease of \$0.4 billion from 1974 or less than one percent. While total uses of funds have changed little since 1973, some components have shown a greater variability.

Annual Capital Formation and Purchase of Real Estate Assets

In 1975, total cash flows of capital were estimated at \$27.4 billion, about 25 percent higher than 1974 and 12 percent higher than 1973. Of the total cash flows of capital, annual capital formation accounted for \$16.0 billion. This amount is a record outlay for capital purchases. However, much of the increase reflects the higher prices paid for capital items. Purchases of machinery total \$9.0 billion, a 15 percent increase over 1974. Considering that machinery prices rose by over 20 percent, the physical quantity of machinery purchases was down from the prior year. Capital improvements to real estate assets were estimated at \$5.0 billion, up substantially from 1974. Other capital purchases include net changes in demand deposits, time deposits, and currency; net additions to household furnishings and equipment; and purchase of breeding livestock. The 1975 estimated total use of funds for these items was \$2.0 billion, a sizeable increase over 1974, but below the record of \$3.1 billion in 1972.

Purchase of real estate from discontinuing proprietors in 1975 was estimated at \$11.4 billion dollars. This is a \$1.9 billion or 20 percent increase over 1974. This amount is about comparable to 1973 levels despite substantially higher land values in 1975 than 1973. However, the rate of land transfers was lower in 1975 than in 1973.

Personal Consumption and Other Cash Uses

Personal consumption and other cash uses of funds was estimated at \$45.5 billion in 1975 (fig. 11). In addition to cash uses for personal consumption, this amount includes uses for income taxes paid and investments made by the farm sector in nonfarm sector activities or enterprises. Because of data insufficiencies, the value is determined residually by subtracting total cash flows of capital from total cash sources of funds. The decline in personal consumption and other cash uses was due to a small decrease in income from farm and nonfarm sources as well as higher expenditures for farm capital items.

OUTLOOK FOR 1976

Key Economic Variables

Crop and livestock output, the level of farm exports, prices received and paid by farmers, and interest rates on new loans are expected to be the major factors influencing the financial outlook for farmers in 1976.

Crop output in 1975 was excellent due to favorable weather conditions. Total planted acreage in 1976 is not expected to decline from 1975 levels and yields will, of course, depend upon weather conditions. Prices received for crops are expected to average

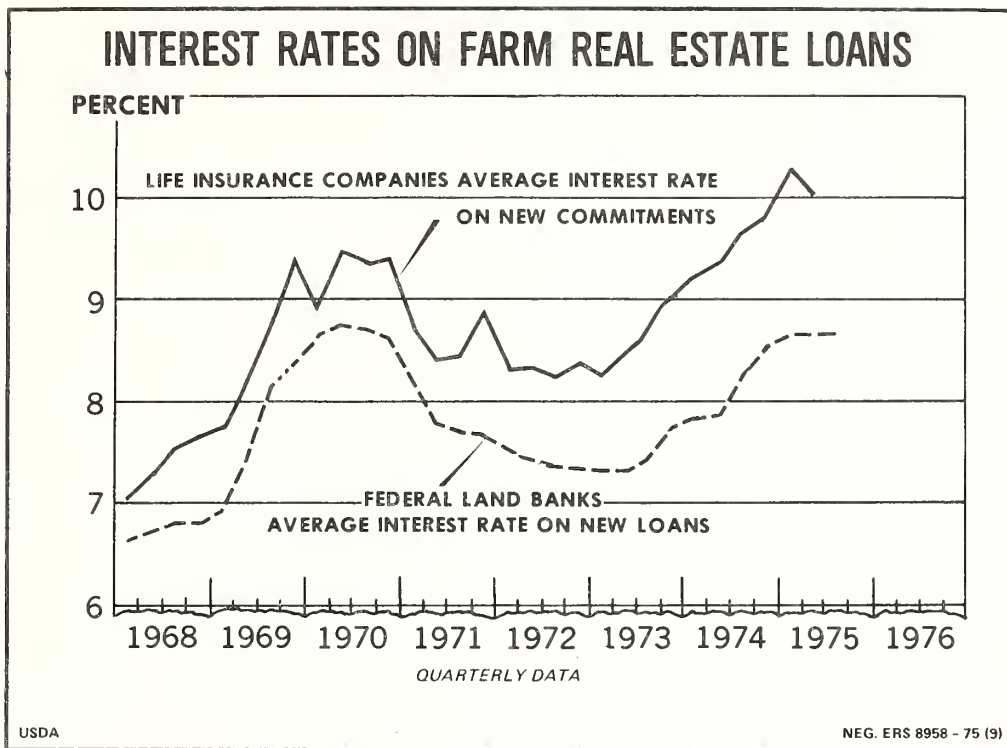


Figure 9

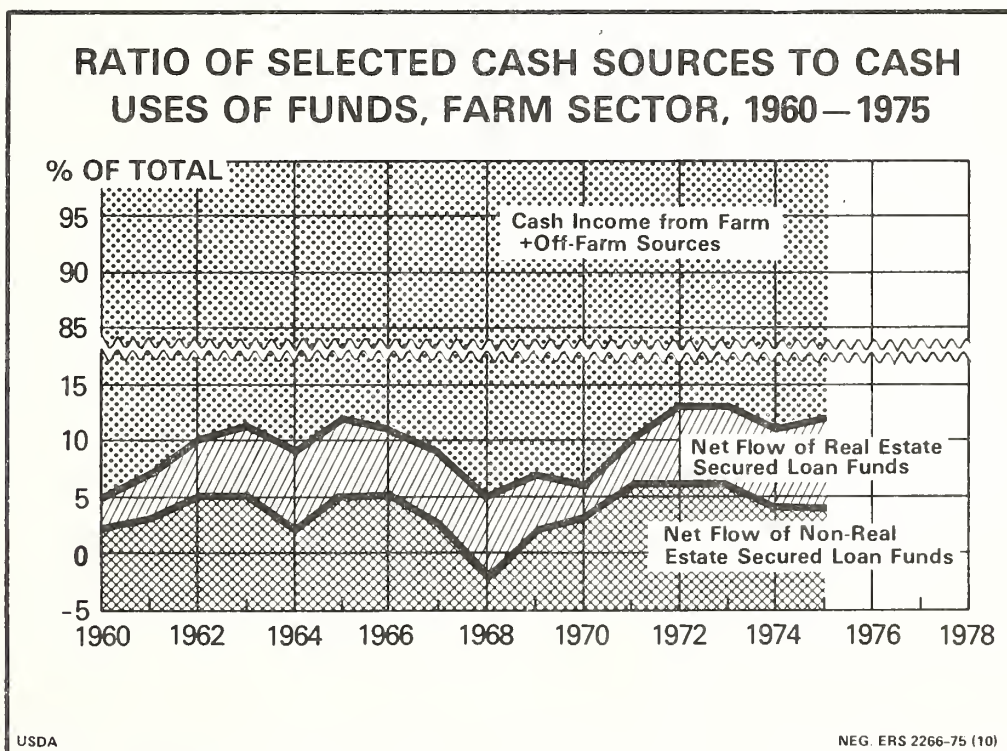


Figure 10

Table 5—Cash sources and uses of funds for the farming sector, 1960-1975

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975 ^a
	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars	Billion dollars
Cash sources of funds ^b																
Cash income from farm and off farm ^c	22.3	23.9	24.8	25.7	26.7	28.8	32.5	30.9	32.8	36.2	37.1	38.2	46.1	64.2	65.2	64.1
Net flow of R.E. loans	.8	1.0	1.3	1.7	2.1	2.3	2.1	2.0	2.3	1.8	1.1	1.9	3.5	5.5	5.0	5.6
Net flow of non R.E. loans	.4	.8	1.4	1.5	.6	1.7	1.8	1.1	-6	.8	1.1	2.5	3.1	4.3	3.1	3.2
Cash source of funds ^c	23.5	25.7	27.5	28.9	29.4	32.8	36.4	34.0	34.5	38.8	39.3	42.6	52.8	74.0	73.3	72.9
Cash uses of funds																
Purchases of machinery and motor vehicles	2.8	2.9	3.2	3.5	3.8	4.2	4.6	5.1	4.6	4.5	4.9	4.9	5.7	7.6	7.8	9.0
Capital improvement to real estate assets	1.7	1.7	1.8	1.9	1.9	1.9	2.1	2.3	2.1	2.3	2.4	2.5	2.4	3.0	3.5	5.0
Other capital purchases ^d	-.5	.9	.9	.6	.6	1.0	.7	1.7	1.5	1.0	1.4	2.4	3.1	2.4	1.2	2.0
Annual capital formation	4.0	5.5	5.9	6.0	6.3	7.1	7.4	9.1	8.2	7.8	8.7	9.8	11.2	13.0	12.5	16.0
Purchases of real estate from discontinuing proprietors	3.0	3.2	3.3	3.5	3.9	4.3	4.6	4.4	4.3	4.0	3.8	5.5	8.5	11.4	9.5	11.4
Total cash flow of capital	7.0	8.7	9.2	9.5	10.2	11.4	12.0	13.5	12.5	11.8	12.5	15.3	19.7	24.4	22.0	27.4
Personal consumption and other cash uses	16.5	17.0	18.3	19.4	19.2	21.4	24.4	20.5	22.0	27.0	26.8	27.3	33.1	49.6	51.3	45.5
Cash uses of funds ^c	23.5	25.7	27.5	28.9	29.4	32.8	36.4	34.0	34.5	38.8	39.3	42.6	52.8	74.0	73.3	72.9
Ratio of selected cash sources to uses of funds: Cash income from farm and off farm sources	94.7	93.0	90.2	89.9	90.8	87.8	89.3	90.9	95.0	93.3	94.4	89.7	87.3	86.8	88.9	87.9
Net flow of R.E. loan funds	3.4	3.9	4.7	5.9	7.1	7.0	5.8	5.9	6.7	4.6	2.8	4.5	6.8	7.4	6.8	7.7
Net flow of non R.E. loan funds	1.7	3.1	5.1	5.2	2.1	5.2	4.9	3.2	-1.7	2.1	2.8	5.8	5.9	5.8	4.3	4.4
Total cash sources	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

^aPreliminary. ^bCash sources of funds from sale of real estate to the nonfarm sector are not included due to the lack of data. ^cGross cash farm operating expenses have been deducted from gross cash farm income in the account. ^dIncludes net additions to household furnishings, commercial bank deposits and currency, and purchases of breeding livestock.

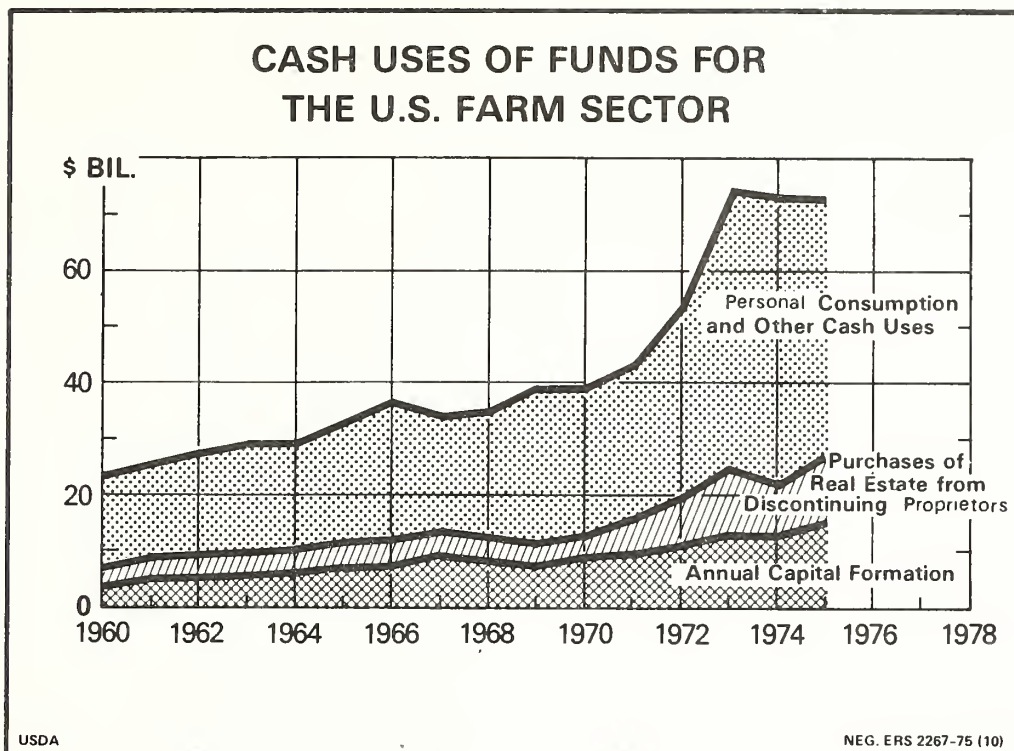


Figure 11

somewhat lower in 1976. Export demand remains uncertain and prices are likely to fluctuate as expectations on export trade and domestic use change.

Aggregate production of livestock and livestock products is expected to rise slightly in 1976, and prices received will likely average higher. Consequently, livestock producers are expected to improve their financial position in 1976.

Production expenses are expected to continue upward in 1976. Fuel and petroleum based products are expected to rise. Purchased feed costs will depend upon related crop prices.

Anticipated large federal deficits financed with borrowed funds make interest rates a major uncertainty for 1976. Heavy demands on the money markets from Treasury borrowing has lead some analysts to predict a capital shortage during 1976. In addition a strong business recovery could result in increased demand for loan funds. For the farm sector, short and long term interest rates have typically not adjusted as much or as rapidly as rates on Treasury bills and bonds. Nonetheless, current indications are that interest rates on farm loans in 1976 may average higher than in 1975.

Forecasting Procedures

The balance sheet for January 1, 1977 and cash flow projections for 1976 which are presented below

are developed with the aid of the Aggregate Income and Wealth Simulator for the Farm Sector.⁴ The model uses functional equations which have been empirically estimated and tested using historical information.

The accuracy of model estimates varies from one component to the next and from one year to the next. For example, in November of 1974, the model gave an estimated value of total assets of \$598.0 billion as of January 1, 1976. The current preliminary estimate from non-model sources is less than one percent lower. Alternatively, model estimates of the net change in real estate debt during 1975 were too high because of a poor estimate of the rate of farm transfers. Continuing efforts to improve the model are being made.

Two alternative scenarios are presented for forecasting the balance sheet for the farming sector as of January 1, 1977 (table 6), and for forecasting the cash flow statement for 1976 (table 7). The constant interest rate scenario assumes interest rates on farm sector loans are equal to the 1975 average, or 8.67 percent on long term loans and 9.1 percent on short-term loans. The increasing interest rate scenario assumes the farm sector interest rates will average

⁴This forecast is based upon results of the Aggregate Income and Wealth Simulator for the farm sector developed by John B. Penson, Jr., David A. Lins, and C.B. Baker.

one percentage point higher in 1976 than in 1975 for both long and short-term loans. All exogenous variables other than interest rates are the same in both scenarios.

Published estimates of farm and off-farm income for 1976 are not yet available. The estimates reported below are a product of the AIW simulator and may not correspond with final ERS estimates.

Stocks of Assets and Loans Outstanding

The value of farm real estate assets as of January 1, 1977 is forecast at \$461.4 under the constant interest rate scenario and \$459.2 under the increasing interest rate scenario (table 6). This represents a 9.0 percent increase under constant interest rates and a 8.5 percent increase under increasing interest rates. These rates of increase are lower than any year since 1972. The projected moderation in the rate of increase reflects a projection of no major change in net farm income, a relatively high rate of interest on farm real estate loans, and a projected moderation in the rate of inflation in the general economy.

The total value of physical assets other than real estate is forecast at about \$149 billion under both interest rate scenarios. This is an increase of over 6

percent, but the change primarily represents valuation changes rather than net additions to physical quantities.

Financial assets held by farmers are forecast to total \$32.6 billion under constant interest rates and \$31.3 billion under increasing interest rates. Holdings of deposits and currency are more strongly affected by interest rate changes than other financial assets. Total farm assets, including physical and financial assets, are forecast to be up 8.2 percent under the constant interest rate scenario and 7.6 percent under the increasing interest rate scenario.

Loan funds outstanding at the end of 1976 are forecast to total \$102.1 billion and \$100.4 billion respectively under the constant and increasing interest rate scenarios. These forecasts imply an 11-13 percent increase in total debt outstanding. Real estate debt is forecast to be \$58.4 billion by January 1, 1977 under constant interest rates and \$57.7 billion under increasing interest rates. Nonreal estate debt outstanding January 1, 1977 is forecast at \$43.4 under constant interest rates and \$42.4 under increasing interest rates. The percentage rate of growth in real estate debt is expected to be about comparable to that of nonreal estate debt.

Projected real estate debt outstanding under constant interest rates for January 1, 1977 is placed

Table 6—Balance Sheet for the Farm Sector, January 1, 1976 and Forecast to January 1, 1977

Item	January 1, 1976	January 1, 1977 ^a		1976 to 1977 with—	
		Constant Interest Rates	Increasing Interest Rates	Constant Interest Rates	Increasing Interest Rates
	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Billion dollars</i>	<i>Percent change</i>	<i>Percent change</i>
Physical assets:					
Real estate assets	423.3	461.4	459.2	9.0	8.5
Nonreal estate assets ^b	139.6	149.1	148.7	6.8	6.5
Total physical assets	562.9	610.5	607.9	8.5	8.0
Financial assets:					
Commercial bank deposits and currency	15.3	15.9	15.1	3.9	-1.3
Other financial assets ^c	16.1	16.7	16.2	3.7	0.6
Total financial assets	31.4	32.6	31.3	3.8	-0.3
Total farm assets	594.3	643.1	639.2	8.2	7.6
Debt Claims:					
Real estate debt	51.9	58.4	57.7	12.5	11.2
Nonreal estate debt	38.4	43.4	42.4	13.0	10.4
CCC nonrecourse loans	.3	.3	.3	0.0	0.0
Total debt claims on farm assets	90.6	102.1	100.4	12.7	10.8
Equity:	503.7	541.0	538.8	7.4	7.0
	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>		
Debt to asset ratio	15.2	15.9	15.7	---	---
Debt to equity ratio	18.0	18.9	18.6	---	---

^aForecast by the AIW simulator. ^bIncludes machinery and motor vehicles, household furnishings and equipment and inventories of crops (including crops held as security for CCC loans) and livestock. ^cIncludes U.S. savings bonds and

investments in farmer cooperatives. Does not include financial claims on specific nonfarm assets such as holding of common stock as data on these claims are not available.

at \$58.4 billion. Although the AIW simulator does not forecast market shares for the various lenders, it is believed that the increase in real estate debt during 1976 would again be largely financed by Federal land banks and noninstitutional lenders. At current interest rates, it appears unlikely that life insurance companies will expand their share of farm real estate loans outstanding. Usury limits in some States on interest rates which life insurance companies can charge is a factor discouraging them from investing their funds in the farming sector. However, given the ability of Federal land banks to tap the central money market, adequate financing for farm real estate loans appears likely.

Nonreal estate debt outstanding under constant interest rates for January 1, 1977 is projected at \$43.4 billion. According to the AIW forecasts, the net flow of nonreal estate loan funds in 1976 would reach \$5 billion, a \$1.8 billion rise from the estimate for 1975. It is expected that increased borrowing for livestock feeding and production will constitute a large share of the \$1.8 billion increase. There appears to be an adequate supply of loan funds available from banks, PCA's and the other lenders.

The debt to asset and debt to equity ratios are expected to increase slightly in 1976 (table 6). Despite the increase, these ratios are expected to remain below the levels in the early 70's. These ratios are generally not comparable to nonfarm sectors because balance sheets for nonfarm sectors are typically done on a cost basis rather than a current market value basis.

Cash Sources and Uses of Funds

Total cash sources of funds are forecast for 1976 at \$79.8 billion under the constant interest rate scenario and \$77.8 billion under the increasing interest rate scenario. Cash income from farm and off-farm sources is forecast to increase by roughly \$4 billion or about 6 percent over 1975. Most of the change is expected as a result of increased off-farm income. Net increases in total debt are forecast at \$11.5 billion under constant interest rates and \$9.9 billion under increasing interest rates. These forecasts suggest that lenders will be under pressure to expand loan amounts. The forecast increases in both real estate and nonreal estate debt are record amounts.

Table 7—Cash Flow Statement of the farming sector, 1975 and Forecast for 1976

Item	1975	1976 ^a		1975 to 1976 with—	
		Constant Interest Rates	Increasing Interest Rates	Constant Interest Rates	Increasing Interest Rates
	Billion dollars	Billion dollars	Billion dollars	Percent change	Percent change
Cash sources of funds from: ^b					
Cash income from farm and off-farm sources ^c	64.1	68.3	67.9	6.6	5.9
Net flow of real estate loan funds	5.6	6.5	5.9	16.1	5.4
Net flow of nonreal estate loan funds	3.2	5.0	4.0	56.3	25.0
Total cash sources of funds ^c	72.9	79.8	77.8	9.5	6.7
Cash uses of funds:					
Purchase of machinery and motor vehicles	9.0	9.4	9.3	4.4	3.3
Capital improvements to real estate assets	5.0	5.6	5.7	12.0	14.0
Other capital purchases ^c	2.0	3.5	2.8	75.0	40.0
Annual capital formation	16.0	18.5	17.8	15.6	11.3
Purchases of real estate asset from discontinuing proprietors	11.4	12.8	12.4	12.3	8.8
Total cash flow of capital	27.4	31.3	30.2	14.2	10.2
Personal consumption and other cash uses of funds	45.4	48.5	47.6	6.6	4.6
Total cash uses of funds ^d	72.9	79.8	77.8	9.5	6.7
Ratio of selected cash sources to cash uses of funds:					
	Percent	Percent	Percent		
Cash income from farm and off-farm sources	87.9	85.6	87.3	---	---
Net flow of real estate loan funds	7.7	8.1	7.6	---	---
Net flow of nonreal estate loan funds	4.4	6.3	5.1	---	---
Total cash sources of funds	100.0	100.0	100.0	---	---

^aForecast by the AIW simulator. ^bCash sources of funds from sale of real estate to the nonfarm sector are not included. ^cIncludes net additions to household furnishing, commercial

bank deposits and currency, and purchases of breeding livestock. ^dGross cash farm operating expenses have been deducted from gross cash farm income in the account.

Annual capital formation is forecast at \$18.5 billion for 1976 under the constant interest rate scenario, an increase of over 15 percent from the 1975 level (table 7). Purchases of machinery and motor vehicles are forecast to increase 4 percent. Capital improvements to real estate are forecast to increase 12-14 percent.

Purchases of real estate assets from discontinuing properties are forecast to increase 12.3 percent under the constant interest rate scenario and 8.8 percent under the increasing interest rate scenario. The rate of land transfers will be roughly comparable to 1975 levels.

Personal consumption and other cash uses of funds are forecast to reach \$47-49 billion in 1976. While this is a \$2-3 billion increase from 1975, it is less than the level in 1973 and 1974.

In 1975, an estimated 87.9 percent of the cash uses of funds was financed by cash income from farm and off-farm sources (table 7). For 1976 it is forecast that

this percentage will drop to 87.3 percent under the increasing interest rate scenario and 85.6 percent under the constant interest rate scenario. These declines point to an increasing reliance upon external sources of funds from 1975 levels.

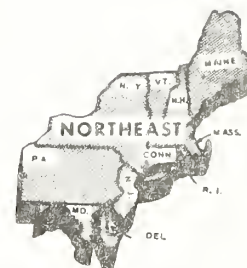
The net flow of real estate loan funds is estimated to finance 7.7 percent of all cash uses of funds in 1975. This percentage is forecast to reach 8.1 percent in 1976 under constant interest rates. Likewise, the percentage of all cash uses financed by nonreal estate loans funds is expected to increase from 1974 levels. Higher interest rates, however, would reduce the reliance on external sources of funds.

Income from farm and off-farm sources in 1976 is forecast to be about 68 percent of total debt outstanding on January 1, 1977. This compares to an estimate of 71.3 percent for 1975. This suggests that, in general, farm operators will be in a less favorable position to repay debt out of current income in 1976 than they were in 1975.

REGIONAL SITUATION AND OUTLOOK

NORTHEAST

	1974	1975	Change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i>
Cash receipts from farm marketings, (January-August)	3,509	3,327	-5.2
Crops (January-August)	1,152	1,024	-11.1
Livestock (January-August)	2,357	2,303	-2.3
Farm real estate debt, January 1	2,183	2,557	17.1
Nonreal estate farm loans held by banks, PCA's, FICB's, and FmHA's July 1	1,403	1,464	4.3
	<i>Index value</i>	<i>Index value</i>	
Index of average value per acre of farm real estate, March 1 (March 1, 1967=100)	244	286	17.2



Outlook for 1976

Financial conditions for farmers in the Northeast will depend to a large extent on weather conditions for crop production, and prices of dairy and poultry products in relation to feed costs. The profitability of these major livestock enterprises should improve in 1976 if the much larger 1975 grain harvests elsewhere result in lower feed costs. Farmland prices are expected to rise further.

Operating funds from commercial banks for some farm operators in the Northeast will probably remain relatively tight, partly due to competition for loan funds from many non-farm borrowers. Reporters indicated that in some areas farmers may have to depend even more on PCA's and FLB's to meet their credit needs.

Nonfarm job opportunities have been scarce, but may improve as improvements occur in the general economy.

1975 Financial Conditions

Total cash receipts from farm marketings in the Northeast region for the period January-August 1975 were running 5 percent below that period of last year. Receipts from livestock and livestock products were down 2 percent, and crops 11 percent. Crop receipts for Maine especially were running sharply lower due to lower potato prices earlier this year. Since mid-year, prices received by farmers for milk, eggs, and broilers increased somewhat. However, prices received for dairy cows for either herd replacements or slaughter were much lower in August of this year than last year. Milk/feed, egg/feed, and broiler/feed

price ratios were somewhat more favorable for producers in September of this year as compared with 1974. Production of corn is expected to be up slightly from 1974; hay and potatoes may be down a little from last year, while a much larger apple harvest is forecast. Heavy rains in early summer damaged fruit and vegetable crops in some areas. Further crop and farm damages occurred over much of the Northeast in late September due to widespread heavy rain and flooding in the wake of Hurricane Eloise. Pasture conditions as of September 1 in several Northeastern States were a little better this year than last, but were still below normal. Milk production in August of this year was about the same as for last year.

Overall, most of the financial reporters surveyed in the Northeast saw little or no improvement in farmers' net worth positions in their areas for 1975 as compared with 1974. In addition, most reporters were of the opinion that farmers' debt repayment difficulties in 1975 in their areas had increased from that of last year. The indications were that crop producers generally were in somewhat better financial conditions than livestock producers.

Farm real estate debt for the Northeast region was 17 percent larger on January 1, 1975 than a year earlier, and nonreal estate farm debt held by major lenders on July 1 was about 4 percent larger. The percentage increase in farm real estate debt for the Northeast was higher than the national average while that for nonreal estate farm debt was lower.

The index of average value per acre of farm real estate in the Northeast was 17 percent higher in March 1975 than a year earlier. Increases in the

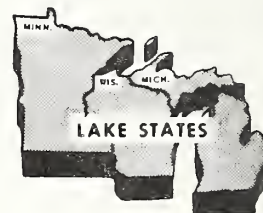
average per acre values from March 1974 to March 1975 ranged from about one-tenth up to one-fifth for States in the Northeast region. Most of the increases came in the first half of that period. A recent survey of farm financial reporters in the region indicated that as of September 1975 most (70 percent) felt there had

been only a small increase in farm land prices from a year ago in their areas.

Availability of nonfarm jobs in the Northeast was tight with financial reporters indicating relatively high rates of unemployment for States throughout the region.

LAKE STATES

	1974	1975	Change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i>
Cash receipts from farm marketings, total (January-August)	5,634	4,973	-11.7
Crops	2,460	1,888	-23.3
Livestock	3,174	3,085	-2.8
Farm real estate debt, January 1	4,011	4,537	13.1
Nonreal estate farm loans held by banks, PCA's, FICB's and FmHA, July 1	2,531	3,007	18.8
	<i>Index value</i>	<i>Index value</i>	
Index of average value per acre of farm real estate, March 1 (March 1, 1967=100)	190	226	18.9



Outlook of 1976

Rising milk prices and improved milk-feed price relationship are expected. These developments will stimulate milk production and increase the incomes of dairy producers. Dairy enterprises provide about a fourth of the regions' farm income. Expected improvement in cattle prices and a moderation in feed prices will make conditions better for cattle producers. An increase in hog production is anticipated.

Continued increases in farmland values and in farmers' net worth are also expected in 1976 if farm incomes are favorable as anticipated and inflationary trends continue.

Generally no serious debt repayment problems have been reported in the region and the strengthening in farm incomes after mid 1975 has improved the abilities of farmers to repay their debts.

Further improvements in off-farm employment opportunities are expected as activity rises in the auto industry and other parts of the economy. Rising incomes in the economy, if realized, will strengthen demands for many of the region's farm products.

1975 Financial Conditions

Cash receipts in the Lake States from all farm marketings for the period of January-August 1975

were down almost 12 percent as compared with the same period last year. The decrease was about 3 percent for livestock and livestock products, and 23 percent for crops. However, generally good crops this year, higher milk prices, and higher prices of meat animals, especially for hogs, will improve receipts during the last quarter of this year.

Crop production for the Lake States in 1975 is expected to exceed that of last year. Corn production is estimated at about one-fourth greater for 1975 than for last year due mainly to higher yields. Soybean production is expected to be up 6 percent due entirely to higher yields, and wheat production is up 8 percent due to both increased acreages and yields in Minnesota. Hay production is expected to be up about 2 percent. Oat production is estimated at about the same as last year. Michigan reported excellent fruit crops, but a much reduced yield of dry beans as compared with last year. Minnesota suffered extensive crop damage in areas of the Red River Valley due to heavy rainfall and flooding in early summer.

Livestock production in the Lake States during 1975 shows mixed patterns. As of July 1, 1975 the inventory of all cattle and calves was about 4 percent larger than a year earlier, while the number on feed was down significantly, dropping 25 percent in Minnesota. The slower growth or decline in numbers

are factors in more favorable price prospects for cattle. As of August 1, 1975, the number of milk cows in Wisconsin and total milk production for the first eight months of this year were practically the same as in 1974. Hog production this year in the Lake States, as elsewhere, was lower than for 1974.

The index of average value per acre of farm real estate was 19 percent higher on March 1, 1975 than a year earlier. The rate of increase varied widely among States. For example, during this period, the average value per acre increased 6 percent in Michigan, 12 percent in Wisconsin, and 30 percent in Minnesota. Financial reporters in the Lake States indicated in September that land prices in their areas had increased as compared with a year ago.

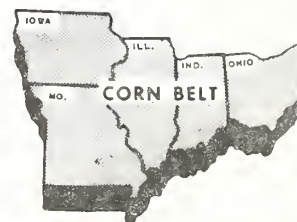
Farm real estate debt for the Lake States was about 13 percent greater on January 1 this year than last year. Nonreal estate farm loans held by major lenders

on July 1, 1975 were about 19 percent greater than a year earlier. The increase for the Lake States farm real estate debt was near the U.S. average while that for nonreal estate farm loans was greater than the national average. This may have reflected the effect of the poorer 1974 harvests of feeds and other crops. Cash receipts were lowered and the costs of feed purchases were increased.

Most financial reporters in the region indicated little if any change in farm debt repayment difficulties in 1975 compared with last year. Opinions as to changes in net worth varied by areas and farm types, but in general seemed to indicate a more favorable position for most crop and hog producers than for dairymen, cattle feeders, and cow-calf operations. The gains in farm real estate values probably accounted for much of the net worth increase.

CORN BELT

	1974	1975	Change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i>
Cash receipts from farm marketings, total (January-August)	13,508	12,908	-4.4
Crops	7,244	6,530	-9.9
Livestock and livestock products	6,264	6,378	1.8
Farm real estate debt, January 1	9,004	9,961	10.6
Nonreal estate farm loans held by banks, PCA's, FICB's and FmHA, July 1	6,106	6,949	13.8
	<i>Index value</i>	<i>Index value</i>	
Index of average value per acre of farm real estate, March 1 (March 1, 1967=100)	182	216	18.7



Outlook for 1976

Prospects for livestock producers in 1976 look more favorable than in 1975. The year will be another very good one for crop producers if weather conditions hold and foreign demands for grains are fairly strong. More moderate feed grain prices will contribute to increased feeding of livestock. With the domestic economy recovering further and demands for food and fiber products expected to strengthen, overall prospects for this major agricultural production region are favorable in 1976.

Land values are expected to rise further in 1976, contributing to additional gains in net worths. Livestock prices are also expected to average higher which would be another contribution to net worth increases. Debt repayments will probably improve. Altogether improved net worths are likely to accompany the favorable farm income prospects.

Planted acres in the Corn Belt in 1976 are expected to be near the record levels of 1975. Crop production again will depend largely on weather conditions both here and abroad. Good crop growing conditions both in the Corn Belt and in other major grain production areas of the world would increase grain supplies, lower their prices, and tend to stimulate livestock production. Unfavorable crop production conditions would have opposite effects. Hog producers in 1975 have begun to react to high hog prices and favorable feeding margins and production is expected to rise in 1976. However, as long as feed prices stay relatively high, the rate of expansion will be moderated. Cattle feeders still feel uncertain as to what feed costs and market prices of the finished animals will be. Income/cost relations are expected to be more favorable in 1976 for cattle feeders and cow-calf producers than in 1975.

Supplies of most production inputs are expected to be more plentiful in 1976. The prices of some fertilizers and feeds, for example, may be somewhat lower, but the prices of most items are likely to continue to rise. Merchants and dealers may feel more competitive pressure to increase credit functions if input supplies become more plentiful.

1975 Financial Conditions

Cash receipts from Corn Belt farm marketings for the period of January-August 1975 were down about 4 percent as compared with the same period last year. Crop receipts were down nearly 10 percent, while receipts from livestock and livestock products were up about 2 percent. Receipts will increase from the larger 1975 harvest, and net farm income for the year may approach the record highs of 1973 and 1974. The crosscurrents of factors still to determine 1975 net farm income include higher crop production at probable lower prices, lower fat cattle and hog marketings at higher prices, and increased farm operating expenses. Favorable income positions of some cash grain farmers in recent years together with their increased on-farm crop storage facilities, will lessen pressures to sell grain crops at harvest time this fall. For hog producers who hit the record high markets, 1975 should be a very profitable year. Lower prices for feeder cattle helped cattle feeders somewhat, but they hurt cow-calf operations.

Production of crops in the Corn Belt is up substantially from last year due mainly to higher yields resulting from generally better weather conditions. Of the major crops, corn production is expected to be up from 1974 by about one-fourth and soybeans by one-fifth. Good to excellent weather conditions for crops prevailed in the Corn Belt from Illinois eastward while summer drought in Iowa and Missouri damaged earlier prospects in those states.

Livestock production in 1975 shows a mixed pattern compared with 1974. The inventory of all cattle and calves as of July 1, 1975 was about 2 percent larger than a year earlier. This was a slower growth than had prevailed earlier indicating the buildup of cattle numbers is ending, and the prospects for higher cattle prices is improving. The number of cattle on feed at mid-year was down 14

percent. Hog production has been down sharply, resulting in record high prices in early fall of up to around \$65 per hundred weight for market hogs and double that for feeder pigs. It appears that more farmers now prefer cash grain operations and no longer want to keep livestock. Also, many livestock farmers have been hesitant to increase production due to high feed costs and uncertainty of future livestock market prices.

The September survey of financial reporters in the Corn Belt indicated that a majority were of the opinion that in their area the net worth of most farmers, except cattle feeders, had increased from that of a year ago. The further large gain in farm real estate values frequently was mentioned as a major contributing factor in net worth increases. Cattle feeders' net worths were less favorable because of losses on operations that many had suffered earlier in 1975 and 1974.

For the Corn Belt region, the index of average value per acre of farm real estate was 19 percent higher on March 1, 1975 than a year earlier. During this period increases ranged from 6 percent in Missouri to 24 percent in Iowa and 25 percent in Indiana. Land values have continued up in 1975. The rise apparently slowed early in 1975 when farm income prospects were less favorable. Land values increased more strongly in the summer when it became evident that foreign demands for grains had increased. Most of the Corn Belt financial reporters surveyed in September indicated that the price of farm real estate in their areas had increased since a year ago. A majority were of the opinion that the number of farms sold in their area this year was about the same as for last year.

Nonreal estate farm loans in the Corn Belt held by major farm lenders at mid year 1975 were 13.8 percent greater than a year ago. Farmers Home Administration emergency loans were much larger reflecting the crop losses in some areas in 1974. Corn Belt farm real estate loans were 10.6 percent higher on January 1, 1975 than a year earlier. For comparison, the increases for the U.S. were 10.1 percent for nonreal estate farm loans, and 12.2 percent for farm real estate loans. Most reporters thought there was little, if any, change in farm debt repayment difficulties in their areas for 1975 compared with that of 1974.

APPALACHIAN

	1974	1975	Change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i>
Cash receipts from farm marketings, (January-August)	2,917	2,935	0.6
Crops (January-August)	1,233	1,263	2.4
Livestock and livestock products (Jan.-Aug.)	1,684	1,672	-0.7
Farm real estate debt, January 1	2,908	3,393	16.7
Non-real estate farm loans held by banks, PCA's, FICB's, FmHA, July 1	2,191	2,513	14.7
	<i>Index value</i>	<i>Index value</i>	
Index of average value per acre of farm real estate, March 1 (March 1, 1967=100)	202	226	11.9



Outlook for 1976

Net incomes of most grain farmers in the Appalachian region are expected to decline from 1975 levels. Abundant production in the nation in 1975 will result in a larger carryover of crop inventories and this will act to depress prices received on crops. Despite the expected decline, 1976 net incomes should remain favorable. High variability in crop prices is expected to continue. Farm operators are expected to react by moving toward greater amounts of on-farm storage of crop inventories and by greater attention being paid to timing on marketings.

Rising livestock prices in the fall of 1975 coupled with expected moderation in feed grain costs leads to expectations of a better year in 1976 for livestock producers than in the prior two years. Production of livestock and livestock products is expected to expand slightly from 1975 levels.

Capital investments of farm operators are heavily influenced by past incomes and anticipated future incomes as well as prices paid on capital items. Continued high prices on capital items and reductions in income are expected to cause a reduction in demand for some items. However, investment in grain storage facilities is expected to be very strong. Despite an anticipated decline in the number of sales of some capital items, higher prices on these items should push the dollar value of sales above the level for 1975.

Land values in the Appalachian region are not expected to increase as rapidly in 1976 as 1975. Prospects for high interest rates on borrowed funds and lower income levels suggest that the demand for land from farm operators will not be as strong in 1976. However, interest in farmland from urban dwellers is expected to remain strong. Particularly attractive to these buyers will be small farms which are relatively close to major metropolitan centers.

Continued increases in the demand for both real estate and nonreal estate loan funds are expected. Loan growth at some commercial banks may be limited by the rate of growth in deposits. Demand for loans from the Farm Credit System is expected to remain very strong. Interest rates are not expected to decline and may increase depending upon the size of government deficits and the actions taken by the Federal Reserve System.

1975 Financial Conditions

Yields on major crops were reported to be higher in 1975 than 1974 in most parts of the Appalachian region. Crop prices were down some from 1974 levels, but for the first 8 months of 1975 total cash receipts from crop marketings were up slightly. Net income from crop production is expected to decline slightly in 1975, but remain favorable in relation to the 1960-72 period.

Production of livestock and livestock products was generally at about the same level as the previous year. Low prices prevailed during the first part of the year and total cash receipts from marketings of livestock and livestock products for the first 8 months were down slightly from 1974. In the latter part of 1975, improvements in livestock prices, particularly for hogs, were evident. A majority of reporters believed that the net worth of livestock feeders was less in 1975 than in 1974.

The majority of reporters in the Appalachian region indicated that land values had increased in this area during 1975. A few reporters indicated substantial increases while a smaller number indicated a decrease in land values. Transfers of farmland were reported to be down in most areas of the region.

Both real estate and nonreal estate debt were up

substantially for the Appalachian region in 1975. As of July 1, nonreal estate loans of reporting lenders had increased by 15 percent. Real estate loans outstanding also increased substantially. However, considerable variation by type of lender was reported. A number of commercial banks reported lower lending activity for both farm real estate and farm machinery loans. Lending activity of some merchants and dealers also declined. However, the dollar volume of loan funds extended through the Farm Credit System was reported to be up substantially.

Farm operators specializing in livestock feeding and cow-calf operations were reported as having increasing difficulty in meeting loan repayment schedules. Operators with general type farms and those specializing in crop production were reported to have no more loan repayment problems in 1975 than previous years.

Demand for Farmers Home Administration loans

for both farm ownership and operating purposes was extremely strong throughout 1975 in most of the Appalachian region. However, FmHA did not have adequate sources of funds to meet the demands. As one reporter indicated, "FmHA is presently meeting the needs of only about one-third of the farmers who are bona fide applicants." FmHA reporters suggested that interest rates on farm ownership loans should be raised if this would enable them to obtain a larger volume of loan funds.

The risks associated with farm lending in 1975 increased according to the majority of lenders surveyed. In response to higher risk levels, reporters indicated they would require greater security on farm loans, and increase the supervision of farm loans. There was also an indication that interest rates on farm loans would be raised to compensate for higher risk levels. However, reporters did indicate that the dollar amount of farm loans made would not change due to increased levels of risk.

SOUTHEAST

	1974	1975	Change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i>
Cash receipts from farm marketings, (January-August)	3,697	4,111	11.2
Crops (January-August)	2,042	2,381	16.6
Livestock and livestock products (Jan.-Aug.)	1,655	1,730	4.5
Farm real estate debt, January 1	2,884	3,455	19.8
Nonreal estate farm loans held by banks, PCA's, FICB's, FmHA, July 1	1,639	1,858	13.4
	<i>Index value</i>	<i>Index value</i>	
Index of average value per acre of farm real estate, March 1 (March 1, 1967=100)	225	253	12.4



Outlook for 1976

Rising production costs due to higher prices are expected in the Southeast in 1976. Possible exceptions are prices of purchased feed and fertilizer which may decline. Incomes of most crop producers may decline from the 1975 level. Gross incomes of livestock producers are expected to improve due to higher prices received for livestock and lower feed costs.

Capital expenditures on farm machinery are expected to increase, but because of higher prices, the number of units purchased is expected to decline. Purchases of storage facilities are expected to be strong. Land values are expected to rise but the number of land transfers is not expected to change much from 1975.

The demand for loan funds for operating expenses

and for capital purchases will likely increase in 1976. Availability of loan funds is not expected to be a problem. However, lenders are becoming increasingly concerned about price variability and the ability of borrowers to repay loans as they become due. For some commercial banks, this will cause an increase in the proportion of their funds placed in "safe" investments such as government securities. In these cases, borrowers may need to consider alternative lending sources. For the majority of lenders, increased product price variability may require closer supervision of farm loans.

Interest rates on farm loans will follow the national pattern and indications are that rates will continue relatively high. Loan repayments will depend upon income levels, but no major increase in defaults or delinquencies is anticipated.

1975 Financial Conditions

Production of major crops, with the exception of cotton, was up substantially in the Southeast region in 1975. Cotton production was reported to be down by over 50 percent in some areas, primarily due to a decrease in cotton acreage. Prices on most crops were about comparable to 1974 levels. However, for the first 8 months of 1975, total cash receipts from marketing crops was up by over 16 percent from the comparable period of a year earlier.

Production of most livestock and livestock products was up slightly in 1975 in the Southeast region. Prices of hogs and poultry were up while other prices were relatively stable. Total cash receipts from the marketings of livestock and livestock products for the first 8 months of 1975 were up by over 4 percent from the comparable period of one year earlier.

Reporters indicated that the net worth position of livestock feeders and cow-calf operators had declined from a year earlier. The net worth position of most farmers specializing in crop production was estimated to be higher.

Land values in the Southeast region increased in 1975 according to a majority of the reporters. However, some reporters did indicate that land values had remained the same or decreased slightly. There was also an indication that the rate of transfers had remained the same or declined from the rate of 1974.

Large increases in nonreal estate debt outstanding were recorded for the Southeast region in 1975. As of July 1, 1975 nonreal estate loans were up by over 13 percent from the same date a year earlier. Real estate

loans were reported to have increased also. The amount of loan funds advanced varied by type of lender. A number of banks were decreasing their amount of farm real estate loans as well as loans to operators specializing in beef production. The amount loaned by merchants and dealers was highly variable. Some reported substantial increases while others reported substantial decreases.

As in other regions of the country, demand for Farmers Home Administration loans exceeded the availability of funds. Interestingly, an Alabama banker indicated that "the Farmers Home Administration should supply money to more farmers and loosen their requirements." FmHA reporters did indicate that some increase in subordination agreements can be anticipated. However, the FmHA emergency livestock loan program has not been heavily used in the Southeast region.

According to a high percentage of reporters, the degree of risk associated with farm lending has increased. Lenders indicate their response to increased risk is to increase the security required on loans and to provide greater loan supervision. Higher risk is not expected to significantly alter the amount of loans per borrower, but some banks did indicate they would reduce the number of new customers they would accept.

Repayment difficulties in 1975 on existing loans were experienced by an increasing number of livestock feeders. Reporters indicated that the frequency of loan repayment problems had not increased for other types of farming operation.

DELTA STATES

	1974	1975	Change
	Million dollars	Million dollars	Percent
Cash receipts from farm marketings, (January-August)	2,205	2,384	8.1
Crops (January-August)	1,041	1,164	11.8
Livestock (January-August)	1,164	1,220	4.8
Farm real estate debt, January 1	2,459	2,749	11.8
Nonreal estate farm loans held by banks, PCA's, FICB's, FmHA, July 1	1,470	1,786	21.5
	Index value	Index value	
Index of average value per acre of farm real estate, March 1 (March 1, 1967=100)	181	196	8.3



Outlook for 1976

Delta crop farmers face another year of price uncertainty due primarily to uncertainty of commodity sales for export. Substantial shifts in

acreage were made from cotton to soybeans and rice during 1975, but cotton prices in 1976 are expected to improve relative to soybeans and cotton acreage will likely increase.

Livestock cow-calf producers will likely experience

another year of low earnings but calf prices are expected to strengthen in 1976 over 1975 levels. High costs relative to calf prices will continue to cause increased sell off of cows in late 1975 and early 1976 and a reduction in total numbers on farms.

Profitability in broiler and turkey production increased during the fall of 1975 as feed prices decreased and product prices rose. Favorable earnings will likely continue through most of 1976, especially for broiler producers. Net earnings of egg producers are expected to improve a little in 1976.

A larger volume of loan funds to finance higher production costs will be needed by Delta farmers. However, the rate of increase in loans during 1975-76 will likely be smaller than the relatively high increase during the previous 2 years. The level of debt outstanding on July 1, 1975 increased by nearly 22 percent over year earlier levels—about the same increase as in the previous year. Debt levels previously had been relatively high because of above normal inventories of crops held by farmers, and heavy buildups in cattle inventories. The supply of loan funds will be adequate in 1976, but some producers, especially cow-calf operators and low equity farmers, may have difficulty in meeting security requirements for loans by commercial lenders. Requests through the FmHA for new loans and increased borrowing from present applicants will likely increase during 1976.

1975 Financial Conditions

Financial conditions for the Delta as a whole generally have improved for crop and poultry producers. Exceptions to the improved conditions among crop growers in the Delta area include those in Louisiana and in the areas along the Mississippi River which experienced a second year of flood

damage during the planting season. Net incomes in Louisiana will be down, primarily due to a 14 percent drop in soybean yields and lower prices for both soybeans and rice. Cow-calf producers throughout the area continue in their second year of low net earnings.

Cotton acreage in the Delta fell sharply from 1974 levels; down over 50 percent in Louisiana and near one-third in Arkansas and Mississippi. However, yields were up 14 percent for the three State area, and, although cotton prices in latter 1975 were near those of last year, they were greatly improved over lower prices earlier in 1974. Acreages of soybeans and rice both showed increases of 12 percent. Generally higher yields for soybeans and rice in Arkansas and Mississippi will boost production in the Delta area 17 percent above 1974 levels.

Lenders generally report new loans to livestock producers have decreased while loans to crop producers have increased. Some debt repayment difficulties were being experienced by cow-calf farmers and adjustments by these producers to supplement cash flows were being made by selling off cows and yearlings. Security requirements of commercial lenders appeared to have increased on loans because of increased price uncertainty. In most States, the Farmers's Home Administration indicated an increased number of requests for most of their farm loan categories.

Land prices have continued to increase slightly in the Delta but less rapidly than during 1974. Farm real estate transfers were generally reported as down slightly from the previous year.

A substantial number of smaller farmers in the Delta depend heavily on off-farm sources of income to supplement farm income and meet farm debt obligations. Earnings from these sources in 1975 did not appear to change relative to those of 1974.

SOUTHERN PLAINS

	1974	1975	Change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i>
Cash receipts from farm marketings, (January-August)	5,118	4,780	-6.6
Crops (January-August)	2,281	2,260	-0.9
Livestock (January-August)	2,837	2,520	-11.2
Farm real estate debt, January 1	4,314	4,936	14.4
Nonreal estate farm loans held by banks, PCA's, FICB's, FmHA, July 1	3,237	3,363	3.9
	<i>Index value</i>	<i>Index value</i>	
Index of average value per acre of farm real estate, March 1 (March 1, 1967=100)	187	198	5.9



Outlook for 1976

Southern Plains crop producers are optimistic about 1976. Both wheat and feed grain producers are apparently gearing up for maximum production. Weather is a very important production variable in the Southern Plains. Moisture conditions during the growing season in 1975 were above average and this tended to lower production cost because of reduced pumping time on irrigated crops. There may be little reason to expect a better crop production year in 1976.

Cattle feeders are cautiously optimistic. The heavy losses suffered by feeders since midyear 1973 have encouraged feeders to use risk reducing measures that have transformed the industry into a more cautious one. Cattle feeders now tend to use the live cattle futures market and hedging. But they are still risk takers and their expectations are reflected by the fact that very few have attempted to hedge against a rise in feed grain prices.

Expanded wheat acreage will have a positive impact on beef production, tending to expand the feed supply for beef and thus beef production. With favorable weather conditions, winter wheat can furnish 4 or 5 months of excellent grazing and most wheat farmers believe that grazing benefits wheat production. With this complementary relationship, both wheat and the production of nonfed beef is expanded. The rate of expansion in cattle number and nonfed beef production exceeded all expectations in recent years. The increase in wheat acres from 10 million acres in 1972 to 14 million acres in 1975 is equivalent to adding more than 4 million acres of improved pasture in the Southern Plains. Any further increase in wheat acres will tend to increase the nonfed beef supply.

Producers in the Southern Plains respond rapidly to changing economic conditions. An example of this rapid adjustment is the production of sunflowers. This crop was virtually unheard of in 1974 but 300,000 acres were planted in 1975, primarily in the Texas High Plains. The incentive for sunflower production came from contractors who offered producers advanced sales agreements. Some production problems were encountered but overall results were good. The sunflower crop had been a welcome new enterprise, but producers are not likely to risk production in 1976 unless forward pricing contracts can be negotiated at favorable prices.

Increased production costs and weak prices for calves and cotton in the Southern Plains in 1974 created a cautious attitude in 1975 on the part of both lenders and the borrowers who produce these commodities. The same situation will continue into 1976. During 1974 and early 1975, cotton producers were discouraged by relative low cotton prices. The result has been a decline in the acres of cotton planted. Where cotton remains, however, it is very competitive with other crop alternatives. These producers will experience some farm credit problems

in 1976. Grain sorghum, wheat, corn, rice and citrus producers fared much better in 1975. No serious financial problems are anticipated for these producers as they tool up to some extent and face expected increasing production costs in 1976.

1975 Financial Conditions

In the aggregate, net returns from farming may below 1974. This is especially true if farm production expenses increase during 1975 by more than 4 percent. Many producers believe their expenses will increase by more than 5 percent.

Cash farm receipts from crops produced during 1975 may exceed 1974 crop sales by about 10 percent despite the situation regarding the change in cash receipts during the first 8 months, shown in the table shown above. The 8 month 1974 figures reflect crop sales from a very good 1973 crop and the 1975 figures reflect sales from a comparatively poor 1974 crop.

Crop producers fared much better than beef producers in 1975. Both the average yield and total production of major crops are significantly up from 1974. Prices were also favorable. Wheat production is up by more than 50 percent. Much of this increase is due to an increase in acres planted and harvested since average yields are up 21 percent. Grain sorghum production is up by 24 percent. Planted acres were up by only 5 percent, thus more favorable weather was an important factor in increasing production. Cotton yields were up about 24 percent, but total cotton production increased only 10 percent because producers reduced cotton acreages.

A depressed situation with respect to beef production will result in lower aggregate net returns in the Southern Plains in 1975. Sales of beef cattle normally account for more than one-half of all farm receipts. As a result of the over supply and reduced prices for nonfed beef, cattle producers are hard pressed to find favor with anything in 1975. However, they are quick to point out that favorable grazing conditions tempered their problem. Good grazing in 1975 has a similar effect to that of planting more wheat which furnished additional forage. The number of cattle on feed was off from 40 to over 50 percent in this area during the first half of 1975. A few custom lots ceased operations while most lots reduced the number of livestock on feed. Fat cattle prices did improve during early spring and cattle feeding picked up somewhat at midyear.

Off-farm income is important to all types of producers in the Southern Plains. It may have been relatively more important to beef cattle producers in 1975. Farm family members of many beef cattle producers apparently obtained off-farm work during 1975 in view of the depressed beef production situation. Farmers' income from off-farm sources in 1975 was probably above 1974.

Nonreal estate farm loans held by lending institutions serving farmers increased a moderate 4

percent in 1975 compared to the 13 percent increase a year earlier. Farmers curtailed major nonreal estate investments in livestock feeding in addition to making smaller purchases of machinery and equipment due to the poor 1974 crop year.

Land values increased, but at a slower rate than a year earlier and the real estate debt probably increased again in 1975 within the usual range of 13 to 16 percent. This reflects the pressure on Southern Plains farmers and ranchers to expand farm size.

NORTHERN PLAINS

	1974	1975	Change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i>
Cash receipts from farm marketings, (January-August)	8,314	7,498	-9.8
Crops (January-August)	4,202	3,609	-14.1
Livestock (January-August)	4,112	3,889	-5.4
Farm real estate debt, January 1	4,409	4,699	6.6
Nonreal estate farm loans held by banks, PCA's, FICB's, FmHA, July 1	4,378	4,639	6.0
	<i>Index value</i>	<i>Index value</i>	
Index of average value per acre of farm real estate, March (March 1, 1967=100)	181	222	22.7



Outlook for 1976

Most crop producers will enter 1976 in a relatively favorable financial position and are optimistic about prospects for major crops but express some concern about price uncertainty due to the heavy dependence on export demand. Dry weather conditions have prevailed in North Dakota and parts of South Dakota and Nebraska during the fall of 1975 which affects fall and winter grazing. Also, if rains are lacking this winter and spring, low subsoil moisture next year could affect grain yields.

Livestock feeders appear more encouraged with respect to increased earnings in 1976 but they worry about the possibility of wide downward swings in fat cattle prices and high grain prices. However, placement of cattle on feed will increase over 1975. Hedging on future sales of cattle will continue to be commonly used in 1976 to reduce risk of price declines.

Cow-calf producers will likely see a year of some price improvement. Calf prices will likely see some strengthening over 1975 levels during the spring months and further improvement through the fall.

Continued large marketing through 1975 and into 1976 are reducing cattle numbers on farms and later next year as the sell off ceases, prices are expected to improve. The market will likely have periods of wide fluctuations in prices that reflect variations in marketings and uncertainties about overall supply and demand conditions. Feed costs will be higher than usual this fall and winter in areas with dry

pasture conditions. Some loan repayment difficulties are anticipated among cow-calf producers but equity positions are still generally favorable and nowide spread delinquencies are anticipated. Use of the FmHA emergency livestock loan program will likely increase in late 1975 or early 1976 when producers and lenders review loan needs for the year.

Demand for operating funds will increase in 1976 due to primarily to further increases in farm input prices, while funds for intermediate needs and real estate will at least equal those in 1975.

1975 Financial Conditions

Financial conditions in 1975 are generally favorable for crop producers and much improved for livestock feeders, but continue unfavorable for cow-calf producers.

For crop producers, production of wheat, corn, grain sorghum and soybeans are up substantially from low 1974 levels. However, production costs are still increasing and, although commodity prices are slightly lower than in 1974, net income to crop producers is expected to equal or exceed that of last year.

For livestock feeders, higher prices for fat cattle and lower feed and feeder calf prices since early spring have improved their earnings from the heavy losses sustained from late 1973 to early in 1975. A majority of lenders reported that net worth positions of livestock feeders are better than in 1974 and that most of the financial adjustments that began last year have been completed. Most feeders, however, are

even more cautious about price uncertainties. Hedging cattle sales against price decreases is common.

For cow-calf producers, low calf prices relative to costs continue to result in unfavorable earnings. Although lenders report lower net worth for producers, equity positions of cow-calf producers are still generally favorable, and there is no anticipation of widespread delinquencies. Some repayment difficulties, however, are expected among cow-calf operators.

Of the total loans under the FmHA emergency livestock loan program, nearly 25 percent were to farmers in the Northern Plains. By late September, not many loans had been made—750 loans for \$100 million—primarily to cattle producers. Most of the loans were primarily to refinance debt obligations incurred during previous periods.

Based on responses from lenders, additional loan funds were available to meet farmers growing debt needs. Loans outstanding at mid-year were 6 percent above the same time in 1974. Loans outstanding were generally up more for farm equipment, real estate and general operating purposes than for livestock and feed. There was a tendency for Federal land banks and production credit associations to show a greater increase in loan volume than for commercial banks, life insurance companies, merchants and dealers or individual lenders.

Land prices increased nearly 23 percent from March 1974 to March 1975. Reports indicate land prices are still continuing to rise especially in the grain producing areas. The number of farms sold in 1975 was generally reported as unchanged from last year. Farm real estate debt on Jan. 1, 1975 was nearly 7 percent above year-earlier levels.

MOUNTAIN

	1974	1975	Change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i>
Cash receipts from farm marketings, (January-August)	4,104	3,889	-5.2
Crops (January-August)	1,681	1,567	-6.8
Livestock and livestock products (Jan.-Aug.)	2,423	2,322	-4.2
Farm real estate debt, January 1	4,037	4,372	8.3
Nonreal estate farm loans held by banks, PCA's, FIBC's, and FmHA July 1	3,015	3,119	3.4
	<i>Index value</i>	<i>Index value</i>	
Index of average value per acre of farm real estate March 1 (March 1, 1967=100)	204	223	9.3



1976 Outlook

Farmers in the region are looking to 1976 as another year of uncertainty. Grain farmers express concern that grain prices will be lower due to large crops and uncertainties over exports. While input prices are not expected to increase as much in 1976 as in 1975, farmers expect little relief from higher input prices, particularly in petroleum related inputs.

Feeder cattle prices are expected to continue relatively low but some improvement is expected later in 1976. Some cow-calf operators are shifting to cow-yearling operations which allow the rancher to realize some additional return. However, for most ranchers, a shift from the cow-calf operation is not a realistic alternative in the short run. With depressed earnings, some reporters foresee a greater demand for loans under the FmHA emergency livestock

program. Lenders generally agree that there had been an increase in the loan repayment difficulties for the cow-calf operate in 1975.

Farmers continue to purchase land for farm enlargement and the general expectation is for land values to continue upward. Some lenders are expressing concern over the future availability of funds for long term commitments. However, loan funds are expected to be available in adequate amounts.

1975 Financial Conditions

Net farm income in 1975 will be down slightly from 1974 due primarily to lower commodity prices. Crop production is up over 1974 levels when drought conditions prevailed over parts of the region. Grain producers and row crop farmers will have higher net

worth increases due primarily to increases in land values.

The financial position of livestock producers in the region continued to deteriorate, continuing a trend that started in late 1973. Cash receipts for livestock producers as a group dropped 4 percent from 1974. However, feedlot operators have been able to make a partial comeback from the very poor year in 1974. Part of this comeback was due to better price relationships for feed grains relative to finished cattle prices, but a large part of the better showing was due to the very low prices for feeder stock. But low prices paid for feeder stock create an income problem for cow-calf operators. While some farm operators have been able to take advantage of higher prices and/or increased yields to help offset higher production costs, the cow-calf operator has been faced with low prices and increased production costs. The losses suffered by these producers have been partially

offset by increasing land values but as a group their net worth was reported to be down from last year.

Farm real estate values have continued to increase in the region. The annual rate as of March 1, 1975 was 9 percent. However, in states heavily dependent upon livestock, the increase was generally less than in states where other crops are alternatives. In the region, the increase in the different states varied from 0 to 20 percent.

Lending institutions reported an increased demand for loans for farm machinery and general operating funds. In almost all situations the increase in the price of purchased inputs and the cost of capital items have forced farmers to secure larger loans for operating expenses and for machinery purchases than they have in the past. This is reflected primarily in the increased debt held by major institutional lenders as of July 1, 1975.

PACIFIC

	1974	1975	Change
	Million dollars	Million dollars	Percent
Cash receipts from farm marketings, (January-August)	6,685	6,515	-2.6
Crops (January-August)	4,232	4,041	-4.5
Livestock and livestock products (Jan.-Aug.)	2,453	2,474	0.8
Farm real estate debt, January 1	4,983	5,579	12.0
Nonreal estate farm loans held by banks, PCA's, FICB's, FmHA July 1	3,004	3,182	5.9
	Index value	Index value	
Index of average value per acre of farm real estate, March 1 (March 1, 1967=100)	145	163	12.4



1976 Outlook

Farmers in the Pacific region will enter 1976 in good financial position, with the exception of livestock producers. The general expectation is that prices will be fairly stable and that costs will not increase as rapidly in 1976 as they did in 1975. Incomes of livestock producers are expected to improve somewhat in 1976. Specialty crop farmers (producers of vegetables and fruits) who forward contract are expected to be in the most secure financial condition. Livestock producers who have cow-calf operations are expected to be in the least secure position. Lenders generally indicate that livestock producers will continue to be in a poor financial condition for a time even after prices improve. Many cattle producers have high debts in relation to net earnings. Some adjustments have been

made by stretching out existing debt over several years in an effort to reduce annual repayments.

Two areas of uncertainty exist for grape and apple producers. Grape production is expected to increase again in 1976 as more acreage comes into production. Growers and lenders expect depressed prices. Over production of apples in 1975 concerns growers that prices will be lower early next year and depress net earnings.

1975 Financial Conditions

With few exceptions crop growers have had favorable net earnings and net worths are increasing slightly. In general, prices received for crops were lower in 1975 than in 1974, production costs were up, but total production was higher resulting in higher net earnings. Net worth are up due primarily to

increased value of fixed assets, primarily land. The financial situation for stockmen continues to be depressed. Unfavorable feeder cattle prices and rising costs have significantly lowered the earnings of these farm operators. Loans to farmers for nonreal estate purposes are up slightly from 1974, reflecting primarily the increased prices of inputs.

Farm land prices have continued upward among the Pacific area states. Annual increases ranged from 7 to 14 percent of March 1, 1975 with the average at 12.4 percent. Farm real estate debt at the beginning of the year had increased more slowly from a year-earlier—by 12 percent—compared with a 17 percent rise during the previous 12 months. The increase in loans reflects primarily higher land values since

there was little change in the number of farm loans made.

Total cash receipts by farmers were off 2.7 percent from a similar period (Jan-Aug) last year. The decline for crops was 4.5 percent and for livestock about a one percent increase. The increase in cash receipts by livestock producers is due to the improved position of livestock feeders. As one reporter put it, "Livestock feeders who survived last year are now making some money, but increased debt is an offsetting factor." For those operators who are raising livestock, as opposed to feeding, 1975 has been another depressing year as their costs continue to increase and the prices received continue depressed. However, prices were beginning to improve by the end of the year.

ALASKA

	1974	1975	Change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i>
Cash receipts from farm marketings, (January-August)	3.0	3.1	0
Farm real estate loans held by reporting lenders, January 1	4.3	4.2	-2
Value of farm real estate, January 1	27.6	34.4	10
Nonreal estate farm loans held by banks, PCA's and FmHA, July 1	1.7	1.2	-29



ALASKA

Outlook for 1976

Alaskan farmers can likely expect little change in their financial condition in 1976. Farm production will probably be close to 1975 levels, with prices and expenses moving up in an offsetting fashion.

Livestock numbers will remain about the same as in the last several years with the probability of some increase in hogs and maybe poultry. Dairy animal numbers may show a slight decline if any of the 15 or so dairy farms in the State go out of business or merge with other dairies.

Crop acreages, except some feed grains, will likely remain about the same as in 1975. Acreages of oats and barley for grain have fluctuated greatly in recent years and there is no indication of how much of each crop will be seeded in 1976. Vegetable acreage may show a slight increase in response to greater demand for local produce. Soil moisture was adequate in most areas going into the 1975-76 winter, which lessens the dependence on snow cover for needed moisture during the spring planting season.

The influx of people to Alaska drawn by the oil pipeline construction and related industries will have only slight effect on the demand for Alaskan crops or livestock since the demand has always been greater

than the supply. However, many farmers supplement their income with off-farm jobs, especially in the winter, and with the added competition from the great number of new people recently moved to Alaska seeking jobs, nonfarm employment will be rather hard to find for local residents. Although wages are relatively high, the prospect of fewer days of work and additional inflation may spell lower real income for many farm families in 1976.

Farm loans will be available in 1976 much the same as in 1975 and the amount borrowed will probably increase some to keep pace with increased costs of inputs, most of which have to be imported from the 48 States. The Federal land bank is the largest lender of long-term loans with Agriculture Revolving Loan Fund (ARLF) and commercial banks second and third largest in that order. The Agriculture Revolving Loan Fund in recent years has been the largest lender of short-term or operating farm loans. The ARLF is a State-funded and administered farm lending agency.

Livestock feed from local producers will likely be in rather short supply from 1975 production which will mean larger than usual feed purchases at increased prices. Unusually wet weather during the hay and grain harvesting season in the Matanuska Valley and on the Kenia peninsula hampered harvesting and caused some losses.

1975 Financial Conditions

Cash receipts from farm marketings increased slightly in 1975 over 1974 but indications are that expenses increased about the same or even more resulting in little change in farmers' financial condition. Barley acreage for grain showed a sharp drop from 1974 but oat acreage increased by a like amount. However, reports are that the oats were not harvested for grain but were cut and baled in the green stage and sold for insulating material for the oil

pipeline. Most crops had average to above average yields and production increased some over 1974. Receipts from dairying, the most important farm enterprise were about the same as in 1974 although the number of dairy animals was down about 5 percent. In 1975, there was at least one less dairy operating in the State than in 1974.

Farm lending in 1975 was a little higher than in 1974 mostly reflecting higher operating costs and increased costs for equipment and land clearing operations. Reports in late 1975 indicate no widespread difficulties in loan repayment.

HAWAII

	1974	1975	Change
	<i>Million dollars</i>	<i>Million dollars</i>	<i>Percent</i>
Cash receipts from farm marketings, (January-August)	425.0	349.3	-18
Crops, (January-August)	385.9	309.5	-20
Livestock and livestock products, (January-August)	39.1	39.8	2
Farm real estate loans held by reporting lenders, January 1	58.2	61.6	6
Value of farm real estate, January 1	1,152.0	1,260.6	9
Nonreal estate farm loans held by banks, PCA's and FmHA July 1	13.6	44.4	226



HAWAII

Outlook for 1976

Hawaiian farm producers will probably have a year in 1976 much like 1975. Receipts may be up but higher production costs and inflation will minimize the increase in net farm income. Sugar prices will be down from their peak 1974 level but farm cash receipts will be well above 1973 and prior years. Sugarcane for sugar, the big money crop, will probably not change much in acreage with production dependent mostly on weather conditions, and although prices will not match those of 1974 and early 1975, they should hold above pre-1974 levels. Pineapple production, with a value second to sugarcane, may decline slightly as some acreage goes out of production. However, some pineapple growers and processors, with plans to abandon much of their Hawaiian production and grow the fruit in certain foreign countries, may be rethinking those intentions because of the seemingly increasing political uncertainties and rising production costs in those countries. Pineapple produced for fresh sale is increasing and is absorbing some of the acreage that used to produce fruit for processing. Beef production could be up slightly with prices pegged to those on the mainland, but pork production is not expected to change much from 1975. Shipments of fresh fruit

other than pineapple is gaining with most of the increase in papayas in response to promotional efforts on the U.S. mainland and Japan.

Hawaii is dependent on water transportation for practically all of its imports and exports and is, therefore, vulnerable to any disruptions in shipping. Shipping strikes or lack of vessels could cause disruptions in 1976. Too, any labor unrest on the farms or in processing plants for prolonged periods could have far reaching effects on the State's agricultural and general economy.

Higher prices for farm inputs, especially fuel and fuel related items, are almost a certainty and will depress any big gains in net farm income in 1976. Hawaiian farmers' heavy dependence on imported supplies makes the energy situation an even larger consideration than in some other States.

Farm loan demand will remain strong and indications are that the usual lenders will have adequate loan funds. Interest rates will follow those on the mainland.

1975 Financial Conditions

At the end of 1975 the financial condition of most Hawaiian farmers will be somewhat improved from

the beginning of the year. Although sugar prices dropped over half and pineapple production and price were lower, most farm commodities had a favorable year compared with 1974. Sugar receipts were not nearly as high as in 1974 but production in 1975 was a little more and the price received was favorable when compared with pre-1974 prices. Pineapple production continued its gradual decline as it lost acreage due primarily to high production costs compared with that produced in other countries. Shipments of fresh fruits and macadamia nuts increased with

corresponding increases in cash receipts. Beef production appears to be showing some increase and with the improved prices the last half of the year that enterprise improved its financial condition. Milk production was stable with slightly higher prices being offset by higher costs.

Farm loans outstanding increased during the year with the fastest growth experienced by production credit associations and the federal land bank. Interest rates charged by institutional lenders were about the same as those on the mainland.

PUERTO RICO

Outlook for 1976

The financial condition of most Puerto Rican farmers will probably see only slight improvement in 1976. Crop and livestock production will likely remain about the same as the last several years. Prices received by farmers will be hard put to keep up with increased costs thereby keeping net income about the same as in 1975. The high prices received for sugarcane products in 1974 and early 1975 will not be seen in 1976 although the price will probably not fall to the level existing prior to 1974. However, relatively few farmers grow sugarcane. Most sugarcane is grown or controlled by the Commonwealth government. For the most part, coffee, beef, milk, poultry, fruits, and vegetables are the important crops for the Islands' farmers. Hopefully, no natural disasters will hit the island; for the past several years extreme droughts, rainfall or hurricanes have caused major damage.

Subsidies from the Commonwealth government are important parts of the income of many Puerto Rican farmers either as direct payments or as cost-sharing for housing, fertilizers and other expenses. Those extra incomes are expected to continue in 1976.

High living costs and increased unemployment in recent years have caused many families to move back to the rural areas. These conditions will probably continue in 1976 and may become even stronger.

Farm credit use in 1974 and 1975 decreased somewhat from the 1973 level and expectations for 1976 are for only slight increases; just enough to keep pace with the higher costs of purchased inputs. Several credit sources are available including production credit associations, commercial banks, Federal land bank, the Farmers Home Administration and the Farm Credit Corporation. The latter agency is a Commonwealth owned and administered lending organization. Interest rates on loans from commercial lenders will follow those in the U.S.

1975 Financial Conditions

Farm production in Puerto Rico was down slightly in 1975 from 1974 levels. Sugarcane in some areas was hurt by drought and coffee and plantain in some sections were damaged by too much rain from hurricane Eloise in September. Besides rain damage to the crop itself, washouts and rock slides blocked many roads leading to coffee stands in the hills making it virtually impossible to reach them for harvesting for several weeks. As a result, much of the coffee crop was lost. Sugar prices were relatively high, so returns to sugarcane growers were higher than average but still not as high as in 1974. But, the great bulk of Puerto Rico's farmers depend on crops other than sugarcane, and prices for those commodities showed only small increases, if any at all. Milk prices went up slightly but not enough to cover higher feed costs.

Most of Puerto Rico's farm production is for domestic consumption and a substantial amount is used on farms where it is produced. Practically all farm work is non-mechanized due, primarily to the mountainous terrain of the island. Modern machinery does not fit the hilly country and small fields. Many of the small farms now in production were once part of large sugarcane and coffee farms that were sold off in small parcels when labor costs became prohibitive and machinery could not be adapted to the terrain.

Subsidies from the Commonwealth government continued to be an important part of the incomes of most farm families. These subsidies were available for labor expenses and to purchase seed, fertilizer and other inputs. However, most farmers also used credit in some form from one or more of the sources available to them. Interest rates on most farm loans were relatively high in 1975 with production credit association and Federal land bank rates showing some relief by dropping from 10.5 percent in effect at the beginning of 1975 to 9 percent in the fall. Subsidized loans from Commonwealth agencies, and in certain areas, emergency loans from Farmers Home Administration were in great demand.

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